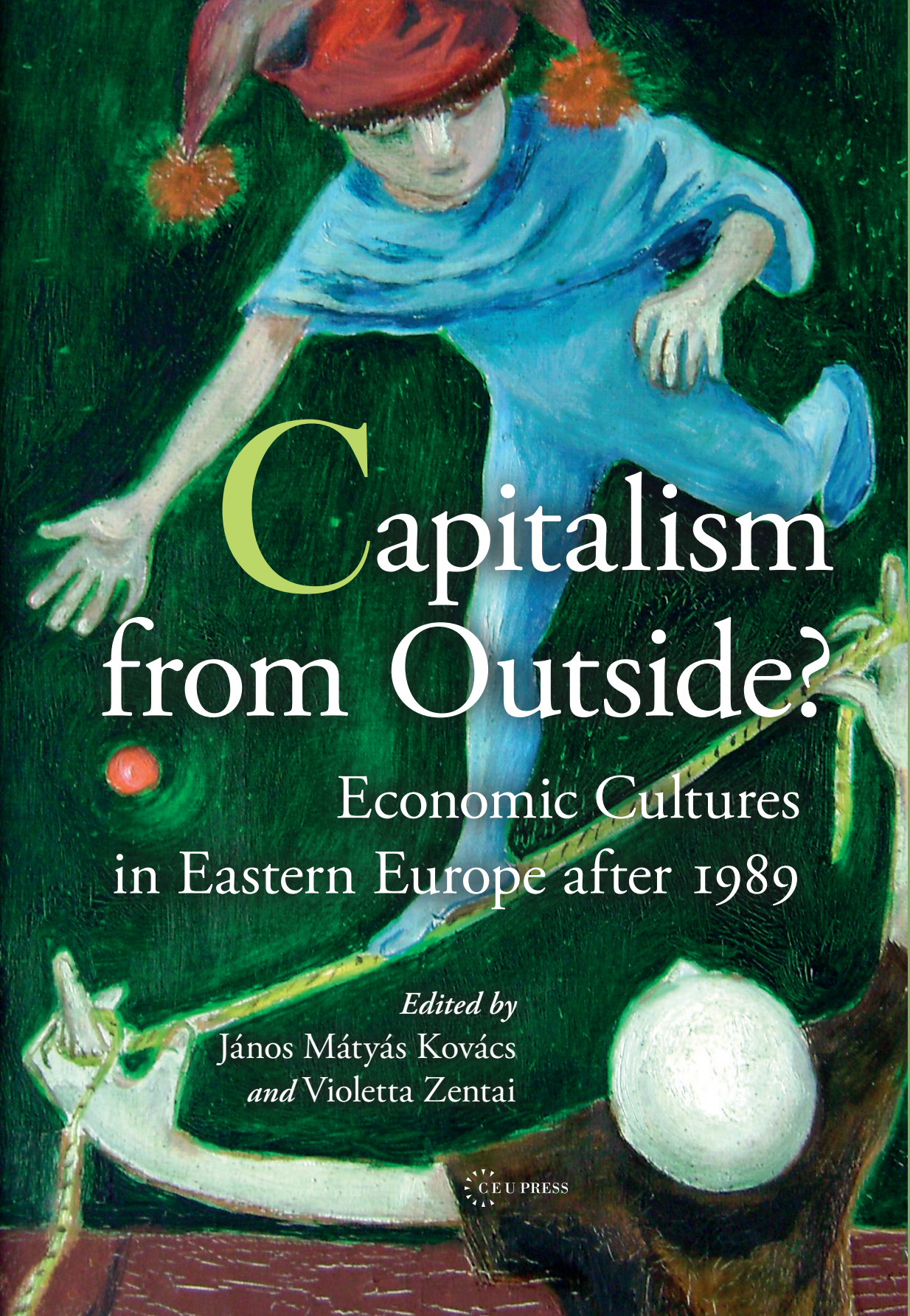




Capitalism from Outside?

Economic Cultures
in Eastern Europe after 1989

Edited by
János Mátyás Kovács
and Violetta Zentai

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János Mátyás Kovács and Violetta Zentai



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About DIOSCURI

This publication presents the results of the collaborative research initiative DIOSCURI, funded within the European Commission's Sixth Framework Program (DIOSCURI: "Eastern Enlargement-Western Enlargement: Cultural Encounters in the European Economy and Society After the Accession"; CIT2-CT-2004-506024; www.dioscuriproject.net). The publication is a joint endeavor of the DIOSCURI research collective, the Institute for Human Sciences in Vienna, and the Center for Policy Studies at Central European University in Budapest.



Institut für die Wissenschaften vom Menschen
Institute for Human Sciences



Prologue:

Going beyond *Homo Sovieticus*

János Mátyás Kovács and Violetta Zentai

... Both buried now in the life-giving earth
though still alive. Even under the earth Zeus
grants them that distinction: one day alive,
the next day dead, each twin by turns they
both hold honours equal to the gods.

— Homer on the Dioscuri in *The Odyssey*

Rival Narratives

When it comes to the domain of culture, Eastern Europe has no comfortable space for writing contemporary economic history. Prior to 1989, the master narrative of cultural evolution in the economies of the region rested on the dubious concept of *Homo Sovieticus*, depicting the majority of communist citizens as obedient and helpless victims of totalitarian rule in a command economy.¹ Although that concept was relaxed during the 1970s and 1980s by the market-socialist reforms producing new actors such as the “liberal *apparatchik*,” the “quasi-entrepreneur,” and the “self-Westernizing consumer,” the 1989 revolutions revitalized the theory of totalitarianism. In the romantic mood of the crumbling Soviet empire, anti-communist dissidents came to the fore of socio-cultural analysis while the less spectacular and more ambiguous representatives of proto-capitalist cultures faded away.

In the wake of the revolutions of 1989, the concept of *Homo Sovieticus* was not replaced; instead, it was complemented by (a) a theory of “sweeping Westernization (Americanization)” to explain the surprising and rapid transformation of fields ranging from free markets to popular culture; (b) a reference to the revival of pre-communist capitalist cultures to nuance that same theory and explain some of the

¹ Cf.: Zinoviev (1986); Tischner (1992); Levada (2005). For an alternative (and more nuanced) view, see Kharkhordin (1999). See also Wedel (1992).

references in cultural change between the economies of Eastern Europe. Accordingly, capitalism did not emerge from communism by itself. By and large, it was foisted upon the Soviet bloc by the West and was not received with equal enthusiasm by everyone. The most successful transition countries all have a tradition of once being among the most advanced capitalist economies in the region before the Second World War. Even if their experiences varied between harder and softer forms of communism, countries like Czechoslovakia after 1989 could still draw from their cultural reservoirs filled in the distant past. Likewise, the less advanced countries of the pre-communist past retained their backwardness during the four decades spent under communism. In the late 1940s, their economic cultures provided a comfortable habitat for the “Soviet Type of Man,” and it is no wonder that these countries followed their own historical path of pseudo-liberalization, *democradura*, nationalism, and the like after the collapse of communism.² In an extreme version of this revised narrative, the gap between the fast and slow transformers corresponded to the secular cleavage between Western and Eastern Christianity, that is, between East-Central Europe, the “real” Eastern Europe as well as South-Eastern Europe.³

The stereotype of *Homo Sovieticus* still looms large today, and the allegedly giant impact of the West upon Eastern European economic cultures has yet to be proved by other than superficial claims about the power of Western capitalism.⁴ Yet, an influential strand of Cultural Studies suggests that the worst features of the two worlds tend to combine with each other in the encounter between the East and the West, leading to what is widely called a sort of “Wild Eastern capital-

² See Janos (2000).

³ See Huntington (1996). There is no room in this brief prologue to challenge the above historical interpretations. A few examples will probably suffice: A current frontrunner, Slovenia was one of the most backward countries of Eastern Europe before Second World War; Orthodoxy was no obstacle to economic development in communist Yugoslavia or post-communist Romania; Hungary’s capitalist evolution was seriously damaged during the past decade, and so on.

⁴ For an interesting exception, see Morawska (1999). For a thought-provoking separation of situational and attitudinal factors in the concept of *Homo Sovieticus*, see Shiller, Boycko, and Korobov (1992). See also Shiller, Boycko, and Korobov (1991).

ism.”⁵ The region is seen as just another victim of a global expansion (post-colonial decay) of capitalist culture, the only difference being that the previous colonizer, the Soviet empire, also left its traces on the cultural universe of the occupied countries. That universe, goes the argument, is characterized by a communist legacy of mistrust, lack of solidarity, rule-bending, illegal business dealings, and the like that pave the way for a direct transition to the reckless rivalry and social polarization under global (American) capitalism today. Although the everyday cultural choices of post-communist citizens remain instinctive and capricious, they nevertheless embody a fundamentally instrumentalist/secular attitude to life. Relativism and social anomie prevail. Culture has been reduced to economic/material culture reflecting a desperate pursuit of a cruel rationality. Just released from Soviet domination, poor Eastern Europe may soon vanish into a global cultural vacuum—an *Untergang des Morgenlandes*.

Unlike previous studies, the authors of this volume propose that the nascent capitalism in the region is much less driven from outside, and its local actors are much more active and inventive than the above narratives suppose. They doubt whether the contemporary capitalist revolution in the region, a revolution that implies complex institutional change, can be explained as a joint result of sheer emulation/imitation of (American-born) global cultural patterns, a tradition-based response to current challenges, and haphazard choices made by spiritless representatives of declining cultures. This does not necessarily mean that one should fanatically search for “local heroes,” or look for ethnic and/or religious groups or the nation-state as pioneers of capitalist culture as has been done in the past.

Does the new capitalism in Eastern Europe really need as solid a spiritual foundation (religions, ethical norms, intellectual convictions, passions, and so on) as some other “Great Transformations” have needed in the past?⁶ Apparently, one *can* become a capitalist entrepreneur (or a hardworking and rationally calculating manager, employee, or worker) without belonging to the German, Jewish, or, to take a timely

⁵ Even if this term is not used, the following works contain strong (occasionally angry) critical remarks on the adverse effects of the West on the economic cultures of the ex-communist world: Barber (1995); Bauman (2001) Beck (1997); Burbach, Nunez, and Kagarlitsky (1997); Hannerz (1992); Jameson (1998); Latouche (1996); Robertson (1995); Žižek (1999).

⁶ Cf.: Hirschman (1977), (1986).

example, Chinese minority in an ex-communist country of the region at the turn of the millennium. Nor does he/she have to go to a Protestant church every Sunday, repeat Confucian truisms when falling asleep, or study Adam Smith's teachings on the virtues of the market in a business course. He/she may just follow certain quasi-capitalist routines acquired during communism and refine them under the new conditions. The new economic actors may also import capitalist culture (more exactly, various capitalist cultures) but not primarily in their elevated forms like Protestant ethics, but in those of down-to-earth cultural practices (norms, habits, modes of behavior, and so on) embedded in freshly borrowed economic and political institutions.

Transnational Cultural Encounters

In going beyond the essentialist and determinist narratives of emerging capitalism, the authors of this volume would like to offer deep empirical insights into the cultural history of the Eastern European economies during the past two decades. Thus far, such insights have mostly originated in large value surveys, a few case studies, guides to what is called "cross-cultural management," and anecdotal evidence. As a rule, these sources do not refer to the very emergence of economic cultures, if they focus on *economic* cultures at all, and do not observe their major roots simultaneously. The economic actors occur as prisoners of certain historical arrangements or current contingencies rather than instinctive or conscious culture-makers. The surveys apply a few synthetic concepts such as "power distance," "uncertainty avoidance," or "traditional vs. secular-rational values" and test them by means of standardized questionnaires targeting perceptions (opinions, presumed practices, and so on),⁷ while the case studies tend to explore specific components of economic culture (work culture, business ethics, corruption, and so on) using rather small samples but often similarly impersonal techniques of data collection. Impersonality does not, of course, characterize the anthropological studies of the post-communist world but, typi-

⁷ Cf. the influential works by Gert Hofstede (2001) and Ronald Inglehart (2005) as well as the World Values Surveys (<http://www.worldvaluessurvey.org/>). The same applies to a variety of Europe-wide surveys such as the Eurobarometer, the European Quality of Life Survey, and the European Social Survey. Similar methods are used by Levada (2005) and Shiller et al., (1991, 1992). See also Hampden-Turner and Trompenaars (1997).

cally, these are scattered, difficult to subject to comparative analysis, focus on a few favorite issues such as labor, rural economy, or mass consumption, and, loyal to the profession, tend to emphasize the critique of the nascent capitalist regimes in Eastern Europe.⁸

To our knowledge, no volume has been published yet that would rest on a whole series of coordinated case studies of economic culture under new capitalism in many countries of the region. Today, research programs on the evolution of economic cultures in Eastern Europe are rare and small-scale, resulting in a few journal articles, in which the region normally appears on the margin of East–West multi-country comparisons.⁹ Local publications that cover the individual countries are also scarce.¹⁰ As regards the large surveys mentioned above, they are hardly interested in Eastern Europe *per se*, and in most cases are unable to interpret their quantitative results in the context of real economic developments.

This volume focuses on multiple sources of recent cultural change in selected fields in a large number of Eastern European economies. The authors ask how the encounters between the economic actors in the East and the West,¹¹ the number and scope of which have dramatically

⁸ There are a number of excellent monographs that offer genuine anthropological accounts of the post-communist transformation based on high-quality fieldwork, for example: Berdahl (1999); Humphrey (2002); Verdery (2003); Dunn (1998) and (2004); Ledeneva (2001). One may also refer to a few edited volumes: Hann (2002); Burawoy and Verdery (1999); Mandel and Humphrey (2002); Verdery and Humphrey (2004); Leonard and Kaneff (2002); Bonnell and Gold (2001). Although the main thrust of László Bruszt and David Stark (1998) was not anthropological, our research project profited much from their insistence on agency, recombination, and bricolage in the context of the transformation.

⁹ This is still characteristic of the emerging literature on the “varieties of capitalism” in Eastern Europe for a long time. See, for example, Hancké, Rhodes, and Thatcher (2007). For exceptions, see Adam et al. (2004); Höhman (1999), (2000); Kornai et al. (2004); Melegh (2006); Mungiu-Pippidi and Mindruta (2002); Sztompka (1993).

¹⁰ See Kochanowicz and Marody (2003).

¹¹ The terms East and West were put in quotation marks in many cases to express a growing fuzziness of the boundaries separating them in the post-Iron Curtain era. Moreover, the “inner West” of Eastern Europe and the “inner East” of the West were of great interest for the project participants because in many cases it was exactly these inner worlds that faced each other in the cultural encounters.

increased during the past two decades, influence the evolution of economic cultures in the region. By placing the transnational cultural encounters in the center of inquiry, the internal sources (communist and pre-communist legacies as well as local cultural innovation) were not ignored. On the contrary, they appeared as important variables explaining how the indigenous actors, that is, flesh-and-blood workers, entrepreneurs, government officials, economists, and so on in Eastern Europe, select (accept, adjust, and mix) and negotiate certain incoming cultures while rejecting others. In studying cultural practices like these, the authors did not close their eyes when confronted with the perceptions/opinions of the actors. Interestingly enough, they discovered a number of cultural stereotypes (cf. *Epilogue*) that have hitherto remained unknown to survey analysts.

In order to understand the East–West cultural encounters, the authors decided to observe the institutions/issues and their key actors in the context of their cultural scenery, and to reconstruct the logic of encounters from their very beginnings. They presented the “cultural biography” of the institutions/issues under scrutiny, not simply a set of personal stories. Ideally, the cultural encounters were presumed to follow this sequence: preliminary expectations by the actors concerning the cultural specifics of their partners (mental baggage); surprises, embarrassments, culture shocks; identification of cultural differences/gaps/frictions/conflicts between the partners; crafting coping strategies by the partners to bridge the gaps; conversation/negotiation/bargaining between the partners; outcomes ranging from rejection/dissimilation to acceptance/assimilation, and emergence of cultural compromises; drawing the lessons. Regarding the outcomes of the encounters, the authors thought to witness a large array of cultural hybrids that represent symmetric and asymmetric, actual and simulated, formal and informal, stable and provisional, or voluntary and forced compromises rather than pure types of rejection or acceptance.

Thus, the authors wanted to discuss not only the ways in which Eastern European capitalisms are shaped “from outside” but also the patterns through which the incoming economic cultures are actually appropriated by local societies. This choice was also confirmed by a conspicuous gap between the scarcity of empirical knowledge concerning the reception of vast cultural packages arriving in the region from the West, on the one hand, and the abundance of high-sounding generalizations about cultural colonization, convergence, Americanization,

Europeanization, and the like, on the other. Although the authors consider cultural exchange to be asymmetric fairly often, they think that it would be nonetheless a grave simplification to talk about a “strong Western” culture that devours the “weak Eastern” culture, or about ongoing and insurmountable “clashes of civilizations.”

Methodology

This volume has grown out of a close cooperation between a number of Eastern European scholars, a multidisciplinary research team of economists, sociologists, historians, anthropologists, and political scientists.¹² We joined forces in the early 2000s under the aegis of the ACCESS project (“After the Accession. The Socio-Economic Cultures of Eastern Europe in the Enlarged Union: An Asset or a Liability?”) run by the Institute for Human Sciences (IWM), Vienna. That project served as a pilot for a much larger research program, DIOSCURI (“Eastern Enlargement—Western Enlargement. Cultural Encounters in the European Economy”)¹³ directed jointly by the two editors representing the Center for Policy Studies at the Central European University, Budapest and the Institute for Human Sciences, Vienna. Currently, many leading members of this program continue to work on the CAPITO project (“Understanding Nascent Capitalism in Eastern Europe”) hosted by the Institute for Human Sciences, which aims at a comparison of the new capitalist regimes in the region.

The chapters of our volume result from DIOSCURI and represent a large sample of studies prepared in *eight countries* in Eastern Europe.¹⁴ The bulk of the fieldwork was completed in 2007 but most

¹² A major intellectual source of the cooperation was a series of international research projects initiated by Peter L. Berger, in which the editors had the chance to take part. See Berger (1998); Berger and Huntington (2002); Harrison and Berger (2006); Berger and Redding (2010). See also Kovács (2002).

¹³ The research project was named DIOSCURI although the story of the twin sons of Zeus, Castor, and Pollux who never strove in rivalry for leadership, reflects only the optimistic alternative of the cohabitation of Eastern and Western economic cultures.

¹⁴ The editors owe special thanks to the members of the national research teams, in particular, to Ulrich Brinkmann, Drago Čengić, Petya Kabakchieva, Irena Kašparová, Jacek Kochanowicz, Vintilă Mihăilescu, Matevž Tomšič and Vesna Vučinić. The project was funded by the European Commission within the 6th Framework Programme. For more information, see <http://www.dioscuriproject.net>.

of the case studies and comparative analyses were written, transformed into publishable articles, and updated in the following three years.¹⁵ Therefore, although the chapters provide a detailed picture of local economic cultures prior to the recent global crisis, they cannot satisfactorily explain how these cultures actually changed in its wake. (For a few assumptions about that change, see the *Epilogue*.)

DIOSCURI covered *two subregions*, Central and Eastern Europe and South–Eastern Europe, to follow conventional classification in symbolic geography.¹⁶ Four countries (the Czech Republic, Hungary, Poland, and Slovenia) belong to the former, and four (Bulgaria, Croatia, Romania, and Serbia) to the latter. The eastern part of Germany where the encounters between *Ossi* and *Wessi* cultures have taken place within a single country was also included in the comparison as a test case.¹⁷

We identified *three research fields*—*entrepreneurship, state governance, and economic knowledge*—that give room to a great many producers and mediators of economic culture.¹⁸ The group of business-people studied under entrepreneurship included firm owners as well as top managers and their chief consultants. The civil servants in state governance were leading officials working at both central and local levels. As regards economic knowledge, the group of economists primarily included academic experts: scientific researchers and university

¹⁵ This is evidenced by several dozens of individual publications. Here we refer just to two preliminary collective works: Kabakchieva and Kiossev (2007); Kochanowicz, Marody, and Mandes (2007). In some cases the authors had to wait until the interview partners gave their consent to publication.

¹⁶ The working hypotheses of the project did not include any assumption about “Balkanization.” As it will be shown in the *Epilogue*, even a less malevolent hypothesis on sharp cultural differences between the economies of the alleged subregions would not have held true.

¹⁷ To our regret, for financial reasons we could not cover Slovakia and any of the ex-Soviet republics.

¹⁸ In trying to avoid narrowing down the concept of economic culture to empty attributes, we let our respondents speak freely not only of “airy” items like values, norms, and beliefs but also of “more tangible” ones such as habits or even policies and institutional arrangements in which the former are incorporated. The term “culture” was used in plural to express the prevailing diversity of cultural types in both the East and the West. At the same time, our interest in transnational encounters did not stem from an identification of nations with

professors. The case studies that relied on, besides a fair number of in-depth interviews,¹⁹ participant observation, and the content analysis of relevant data and documents (including the media and the secondary literature) were subjected to comparison across the countries. On average, ninety interviews, nine case studies, two media reviews, and one literature review were made in each country.

DIOSCURI was not only unique in terms of the quantity of cases and the—almost anthropological—depth of their studies but also in that of the diversity of cases. We selected small and large, old and new, and public and private institutions that operate in various branches of the economy, polity, and science, and embody cultural encounters with different countries/regions in the West. With the help of “thick description,” the authors reconstructed the history of the encounters over long periods. In preparing for publication, they condensed the ample empirical material into lively “short stories.” Many of the case studies with identical topics and institutional background were then subjected to comparative analysis to obtain regional results.²⁰

The volume consists of three parts as well as a Prologue and an Epilogue. The Prologue presents the state of the art and the methodological design of the research program. The three parts follow the

cultures, thereby ignoring cultural exchange within the countries under scrutiny. Moreover, it was assumed that intra-national cultural differences between generations, genders, regions, and so on, though often caused by international differences, may overshadow the latter. Finally, our project was not intended to become a comprehensive survey of all possible functional subcategories of economic culture (such as work culture, consumption culture, financial culture, and so on).

¹⁹ The respondents took part in loosely structured narrative interviews focusing on actual developments in the context of their own case/issue. In what we called “guided narration,” they were not asked questions directly about “cultures,” “encounters,” “conflicts,” and the like. The only attitudinal question (“In your opinion what could the foreign and local partners learn from each other?”) was raised at the very end of the session.

²⁰ While the case studies covered large banks, car factories, software companies, wine producers, supermarkets, EU-based governmental programs, Phare, UN, and USAID development projects, consulting firms, research institutes, and so on, the comparative papers dealt with topics like a transnational bank’s regional network, foreign direct investment in food industry, regional development programs, and Eastern European MEPs as well as new economics departments and think tanks.

major research fields on entrepreneurship, state governance, and economic knowledge. In the Epilogue the editors confront the working hypotheses with the results of the project. In arriving at their conclusions, the authors also experienced a great many surprising cultural encounters with each other and with the real world of post-communist Eastern Europe—encounters that helped us bridge the gap between our original expectations and the final outcomes of the research program.

* * *

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Part 1

Entrepreneurship: Smooth Hybridization?

Repatriate Entrepreneurship in Serbia

Business Culture within *Hauzmajstor*

Vesna Vučinić-Nešković

Aims, Basic Concepts, and Methodology

This study concerns a small start-up firm founded by a Serbian repatriate who returned to Belgrade in 2001. His professional career was reinforced by highly specialized training in Western-type business management, expatriate positions located in the West and the East, and the socio-cultural milieu of Central and Eastern Europe.¹

After working for large multinational companies both abroad and at home, he decided to leave the secure shelter of a multinational office in Belgrade and to start his own business. His entrepreneurial activities from 2004 onwards have run in two parallel directions: one was turning to the consultancy needs of foreign and domestic companies interested in restructuring, investment, and other business activities in Serbia, while the other concerned itself with the very concrete local needs for a home maintenance service, the first activity conducted through *Комон сенс* (*Common Sense Group*) and the second through its daughter firm *Hauzmajstor*.

This study concentrates on *Hauzmajstor* and investigates the various themes tied to its business culture. Some of these themes were preconceived, while others appeared in the course of the investigation as a result of changes in the ownership of the firm. Intercultural encounters were studied within the firm and the extended business environment, that is, the relations with foreign clients and potential foreign partners. However, this paper will concentrate on the ideas and standards built into the initial (ideal) repatriate business model, and

¹ Working for Phillip Morris, S.J. spent altogether nine years in Switzerland (working in the Czech Republic, Poland, Hungary, Romania, the former Yugoslavia, and Albania), Russia (Director for Northwest Russia in Saint Petersburg; Regional Director of Marketing for Russia in Moscow), and Kazakhstan (Director of Marketing for Central Asia in Almaty). In 2001, he returned to Belgrade to become the Director of Coca-Cola for Serbia, Montenegro, and FYR Macedonia.

study how this model has been implemented in the organizational and business culture of *Hauzmajstor*.

Preferring to avoid too many theoretical concepts, this study will start off with just two basic assumptions. First, the general concept of *culture* will incorporate the values, standards, relations, and practices of a social group.² Second, two categories of socio-economic culture will be examined: (a) *organizational culture*,³ referring to the organizational values and practices within the company under scrutiny, and (b) *business culture*, referring both to the organizational culture and to the values and practices projected towards the business environment.

During the course of the fieldwork, 24 interviews were conducted on all the hierarchical levels within the companies, starting with the senior partner and junior partners in *Комон сенс* and *Hauzmajstor*, one being the president and the other the general manager of *Hauzmajstor*, the financial and technical managers, the team leaders, and ending with call center operators and servicemen. Two interviews were carried out with the area manager of *Rustler*, their Austrian partner firm, and four with both private and commercial clients.

The research also included a detailed observation of the daily work in *Hauzmajstor*'s office and call center operations, its use of specialized call center software and databases as well as visiting intervention sites with the servicemen. Some of the activities of *Hauzmajstor* were documented with photographs. Written sources were also used for the analysis, such as texts available on the *Комон сенс* and *Hauzmajstor* websites,⁴ articles published for marketing purposes, as well as a book⁵ and interviews given by the founder of the company in Serbia's leading national newspapers and magazines.

² Considering that the author of this text is an anthropologist, she took the freedom to mold this working definition of culture, assuming that it is the most appropriate one for the needs of this study. Otherwise, Kroeber and Kluckhohn have noted 156 different definitions of the same concept (Kroeber and Kluckhohn 1952).

³ A very creative and layered definition of organizational culture may also be found in Alexandrov (2004). Also, we can argue that anthropology has influenced contemporary theory of organizational culture, see: Louis, Posner, and Powell (1983); Allaire and Firsirotu (1984); Schein (1998).

⁴ The websites are: <http://www.komonsens.com> and <http://www.hauzmajstor.rs>.

⁵ The book was published in Belgrade by Politika narodna knjiga with the title *Azbubka Biznisa* (The alphabet of business).

Firm Development

Founding Komon Sens (Комон сенс) and Hauzmajstor

“Komon Sens” (Комон сенс) was founded as a share-holding company aimed at business consulting and development. At the time it started operations the core of the company consisted of the founder and majority shareholder with the position of the president and senior partner, three junior partners (minority shareholders), a consultant, and an office manager. The office was set up in a classy old apartment in the central part of Belgrade. The founder of the company chose *Комон сенс* as the name of the company, which is a Serbian phonetic transcription of the English word “common sense.” This is how he explains it:

Комон сенс [komon sens] is an awfully well-known word, typical in many languages, not only in Anglo-Saxon, but in Francophone and even Slavic languages, with the meaning of *здрав разум* [zdrav razum]. The use of the word on the one hand goes from total banality to the point where it becomes the essence of things, and on the other, it is something that we always lack.

We often say here that we don’t have *комон сенс*, that we always follow some logic that isn’t *здраворазумска* (commonsensical), so the name came out of this logic, and then we Serbified it by putting it into the Cyrillic alphabet. Why did we do it this way? *Здрав разум* in Serbian, that is, in Cyrillic, is the same as *комон сенс* in Cyrillic. This is our context, and these are some universal values that we do not have any reason to run away from. There is no need to change them. It’s not that common sense is two different ideas in England and in Serbia, common sense is common sense, and the fact that we put it into Cyrillic contains the idea of adaptation of some universal values and general rules through our language. Now, if we named the firm *Здрав разум*, it would sound like a funeral society, whereas *Комон сенс* in Cyrillic sounds interesting. This is the logic. And, the English counterpart of the company name is *Common Sense Group*.

Simultaneously with *Комон сенс*, its daughter company *Hauzmajstor* was created as the first business development project born from the mother company, aimed at offering “home maintenance.” Based on the same principle of share-holding ownership, its major shareholder was *Комон сенс* in addition to a few minor individual shareholders on the side. The latter were not on the payroll, but were investing their work in increasing the value of the firm. In April 2005, the firm comprised 25 employees, 14 of whom were servicemen and support staff

dealing with finances, accounting, inventory, customer service, and management.

According to the founder, the intention was “not to make a commodity, but to create a brand.” The idea was:

You have repairmen in Belgrade, but you don’t have a firm that specializes in repairs and maintenance, so let’s design it and build it up as an organized service. And in the semantic sense, the name *Hauzmajstor* creates two fine contexts. The first context is that it belonged to those forgotten things that once were positive, so it ties you into a tradition where every apartment house in prewar Belgrade had a skilled repairman. It isn’t *domar* [domar]. *Домар* (janitor) associates with socialism, and *Hauzmajstor* with artisanship. The second is that it has this Germanic technical root that associates with precision and discipline, and in the end, it’s a Serbian derivative of the German word *Hausmeister*. This name also looks better in the Latin alphabet. We just couldn’t find a Cyrillic font that looks technical enough. And this way, they look at you as a foreign firm; they’re uncertain whether it’s local or not.

An important part of the preparations of launching *Hauzmajstor* was in creating its visual image. The general manager remembers how it went:

The design was created by this extremely talented 19-year-old, a son of our friend, who took a year off before going to Italy to study design. He practically designed this house and this whole story around it, after which we all discussed the color and the size of lettering. It was our common decision; we voted for a final black and yellow scheme. Then, when we came to the uniforms, it became a yellow and navy blue combination, so that it associates with military style, but with a flare of elegance. And really, from the trousers, which may be zipped down into shorts, to shirts, jackets, and everything else, our boys really look like Hercules in their uniforms. We made drawings for every piece of clothing, and they worked according to the prototype. Now, we have a book of standards for both the design of the uniforms and the cars.

He went on to explain that the idea behind this business approach was not intended to cover up the quality of service with marketing, but rather to stand out from other similar companies: “The standard is that you cannot be unshaven; there’s no chance that you aren’t in uniform, that your car isn’t washed, or that you smoke in the car. All this was implemented through training.”

Recruitment, training, and marketing

The *Hauzmajstor* general manager recollected a humorous anecdote of how the first team was assembled:

Our operatives were recruited according to criteria such as “he’s a nice guy, I trust him, and he’s good with his hands.” So it was something like you have a buddy, a boyfriend, a husband (“look at him, he does something around the house all the time”). We wanted to avoid “professionals” with a JNA (Yugoslav National Army) tattoo and the attitude of “look at me, do you know how much I’m worth?” Instead, our “brand development” approach led us to the start-up team, which included a man who’s a sculptor, a man who got his engineering degree in Japan and was married to a Japanese, or to individuals who spoke Russian or Hungarian, and then we slowly grafted onto these people professionals who accepted working up to our standards.

Training meant learning procedures of a technical nature, but also those related to establishing a relationship with the client, for example, precisely written instructions on how the call center operator should behave or how a serviceman should introduce himself when he arrives at the client’s premises. The procedures also prescribe what, and in which order, has to be done when the serviceman faces a problem. Their implementation was subject to control by either one of the team leaders or even the general manager himself.

In parallel with the appearance of *Hauzmajstor* in the market of Belgrade maintenance services, the company was publicly launched and advertised in a number of short articles in daily newspapers and weekly magazines, such as *Blic*, *Ekspres*, *Glas*, *Danas*, *Vreme*, *Evropa*, *Lisa*, *Moj Dom*, *Moj Stan*, and *Café & Bar*. The articles, entitled “All Repairmen in One Place,” “There Is No More ‘Majstore, How about a *Rakija* (Brandy)?” “One Call Fixes All,” “For a Cultivated Home,” and “Repairman for 70 Types of Repairs” all promoted the business values and professional standards built into *Hauzmajstor* image.

By first presenting *Hauzmajstor* as the first private communal service in Serbia, the company was further associated with the figure of a “housekeeper” who cares about order and cleanliness in the building but also with the modern version of a gentleman in a caftan (an elegant house robe) from pre-Second World War Belgrade who was, above all, an intimate neighbor whom you could trust with any maintenance

problem. This *hauzmajstor* of the twenty-first century comes either upon “demand” or based on “annual subscription.” The firm offers all kinds of services, ranging from the basics (electricity, water, carpentry, and other repairs) to specialized services in the same domains (larger repairs), and additional services, such as cleaning, baby-sitting, and so on. *Hauzmajstor* advertises a transparent pricing policy and moderate prices. The basic services are available on a 24-hour basis as “regular interventions” during working hours and “urgent interventions” after working hours.

It is obvious that the marketing image created by *Hauzmajstor* was founded on an interplay of symbols that often involve opposing associations: foreign/our own/stolen from the West/drawn from our past; what we lack/what we deserve; intimate/distanced feelings/memories; physical work/intellectual work; filthy job/clean job; standardized/custom-made; high quality/moderate price; appropriate for local citizens/appropriate for foreigners, and so on.

Starting up and the first year of development

Hauzmajstor started by offering only a small home maintenance service. After a one-month training period, the *hauzmajstors* were out on the streets. Each serviceman specialized in the most frequent repair problems and covered the territory of two *opštinas* (townships). Eight of them worked from 9 a.m. to 5 p.m. A call center operator coordinated their activities. If a larger problem occurred, a specialist was sent off to assist. For the first two weeks, everyone used their private cars, with the firm covering the gasoline expenditure, after which they purchased eight new yellow cars painted with the *Hauzmajstor* emblem.

The general manager describes the reaction as a euphoria similar to the opening of the first McDonalds restaurant in Belgrade in 1988, when people queued in the expectation of ordering something that would sweep them off their feet:

With overwhelming curiosity and high expectations people started calling us for things you cannot imagine, “Could you come and chase a bat from our office?” or “Can you saw a queen bed in half?” I really freaked out about the bat because our call center operator said: “Sorry, but we don’t work with animals.” I told her later: “You should have done better than that, it would have been such a great marketing gag.” I could just imagine us going in with hoods and brooms, as I later

learned this is how it should have been done. But it says something about trust. You see how much trust they have in us, how positively spoilt these people have become, how much they believe that we can do just about anything.

Two years later one of the team leaders stated:

What the firm looks like now is far from what we started from. In the beginning, S. (the owner) was with us all the time. We needed to learn from scratch—*what, how, who*—and we had to be involved in everything that was going on... In the meantime, the administrative structure has strengthened. We also enlarged the network of subcontractors. From not having any at all, we now have a wide network of subcontractors with whom we cover anything that may happen in a business space or in a residential domicile. Professionalism and work culture constitute the true spirit of *Hauzmajstor*.

He went on to explain that work culture means “simply to have discipline, to have a truthful relationship with the firm, with colleagues, with clients, to do your job in the best way possible, and to follow every activity through with documentation. Thus it means a kind of cleanliness of work. This is now called transparency. And if something initially isn’t transparent, then we see to it that it becomes so.”

Another positive result of *Hauzmajstor*’s development has been that much of the original core team has been preserved, which means that five out of nine people involved in operations were still with the company. The three core team members who were interviewed during this study stressed that they were proud of being able to pull through all the difficulties of the start-up phase.

This is a very good core in my opinion. We all grew up together and we have a great relationship. And the people who came later also adjusted to our protocols equally well because they had no other choice, they could only accept this same model of behavior. People simply feel good about this extremely correct relationship B. (general manager) has with us, and it’s then passed on to everyone else.

Hierarchy: Relations and perceptions

During the research, except when explicitly asked about their hierarchical positions in the firm, seldom would any interviewee mention his/her own formal position. All the positions were primarily described

through specific responsibilities while the managerial positions were mainly identified as “coordination.”

This is what the general manager said about his approach to hierarchy and management:

In management, you need to be soft. Here, I’m thinking of the soul, not of other things. It means you literally have to know the individual. Thus, the issue of ‘human resources’ isn’t a question of numbers anymore. We’re all pretty much equal, our salaries are not too far apart, all our problems are all piled together, plus we all know everything about the firm, whether you have a bit more or a bit less. Some criticize me because I’m, in some ways, too intimate with the people to whom I should be an authority. But the question of a limit is relative. I think that in this whole process the results point to who is right. In the end, you arrive at the numbers. The question is whether I can pull the maximum out of you, but with you realizing in the end that what you invested in the company has become part of your life and that you’ve really learned something.

The technical manager expressed a similar position, defining the mutual relationships like an anthropologist:

I try to have the attitude that we are all buddies up to a point. This means if a problem arises at home, the repairman should solve it there, not at work. I think that we function, literally, as a team or as a kind of a tribe, in which everyone knows who’s the chief and who the others are, but in times of war, everyone’s in it together. So, when we have a problem, everyone is there. And this is the only way that people can be kept together. If somebody is on the frontline, you have to protect him, but also give advice, and when needed, you even have to scold. I also think that, generally, our transition to this European or Western system has to go in this fashion.⁶

The hierarchy in *Hauzmajstor* is an ever-changing structure that transforms to adjust to a changing market. Decisions are made on different levels: strategic, managerial, operative, and daily. While the strategic decisions are made at the top, other problems are solved in one of these two kinds of meetings. First, the whole firm gathers at monthly

⁶ Mirjana Vasović and Borislav Kuzmanović have also pointed to the importance of participation and involvement in contemporary organizations (Vasović and Kuzmanović 2001); (Kuzmanović 1997).

meetings where the results are analyzed or new problems discussed. Additionally, smaller operative meetings are organized on a weekly basis with the mandatory presence of the general manager, and the optional presence of the two team leaders, the call center operator, and someone from finance. In the end, a number of *ad hoc* informal meetings about routine problems take place during the office hours in any of the two common spaces or during coffee breaks in the garden.

Entering partnership with an Austrian firm

In spring 2005, the owner and the general manager of *Hauzmajstor* learned from their client, a large Austrian bank situated in Belgrade, about the interest of an Austrian real estate management firm in investing in *Hauzmajstor*. *Rustler*, a family firm founded 70 years earlier, had already developed a property management business in Austria, while in the recent years it created a network of six firms within Austria and Central and Eastern Europe called the *Rustler Group*.⁷ At the time *Hauzmajstor* was approached, this network comprised four firms in Austria and one both in the Czech Republic and Hungary, with the plan to make the next acquisition in Serbia and Montenegro.

After about six months of communication and exchange of information, the process of negotiations between *Hauzmajstor* and *Rustler* was concluded, with a partnership contract that assumed the Austrian firm as the majority owner (with 51 percent of shares), with the perspective of becoming the sole owner after five years. The contract provided for keeping the local management and operations intact but also allowed for developing the firm as a profit center that would in the near future become involved in real estate brokerage and property management activities.

Intercultural Experiences within Hauzmajstor

A repatriate model of business culture

When asked to define the business culture model he wished to implement in *Комон сент* and *Hauzmajstor*, the founder of the two companies responded that he wanted to build in those elements of motivation and culture that he learned in the systems he worked in previously:

⁷ More about Rustler Group may be found on their website <http://www.rustler.cc>.

You can narrow this down to the responsibility you immediately give to someone new who comes in, no matter how young and inexperienced he/she is, and to the elimination of all those so-called “children’s illnesses” normal for some other organization where you’d have to wait your turn for your place, where you’d first have to acquire experience, and only afterwards be able to earn a better position.

Asked to clarify, he continued:

You could also boil it down to an immediate accessibility of the working conditions and resources in a professional sense, to the openness of the organization, to flat organization in the communicational sense,⁸ to distribution of information between all team members, to clear vision, clear aims, and clear stakes in the picture about who needs to do what in the attainment of the general goal. And it would also be that classic Western “Go! Go!” motivation that things are possible and achievable.

Recognizing the repatriate model

As far as the reaction to employment in the firm is concerned, five employees were asked directly about those values and practices in *Hauzmajstor* that are manifestations of the founder’s repatriate background. The financial manager was under the impression that the concept itself and the appearance of a completely new brand, mode, and type of business management, including the mobile advertisement itself, was a foreign fashion, so to say. “You can recognize something refined there.” Among the specific business features was a brand, visually represented by a specific logo: “those small houses with chimneys, and a name that invited associations to the long past bourgeoisie in Belgrade.” What was also completely foreign to her was “the way he thought of a car fleet with excellent serviceman inside, able to operate in all domains, starting from mowing the lawn and tending the garden, fixing all the house facilities, to making a house for a family pet.” As another foreign feature she saw the idea of introducing subscription based on high professionalism in the sense that “every month you make the payment that is sent to you by invoice or a bill,” and as a result, “we are per-

⁸ In the Polish case study done within the DIOSCURI project, dealing with return migrants’ perceptions of the domestic organizational culture compared to that of the West, the respondents also stress the nonexistence of desirable “flat hierarchical relations” and, instead, the existence of the inherent “hierarchical order in which the boss rules” (Mandes 2007, 13).

ceived by the clients absolutely as a state institution that sends them a bill and keeps record of them, so that every time you call and tell them, 'Sorry, you did not make your payment,' they take it very seriously."

One team leader, however, stressed the principle that "good business making is a universal language," and thought that it could be applied in any country, be it Uzbekistan, France, or Serbia: "The biggest business legacy of the most developed countries is that you run the business well, you are truthful with your client, and you fulfill all your commitments." He then asserted that there is no reason that it should be different here and that we should consider it imported. In that sense, there is not much difference between traditional and contemporary business in Serbia, "because you had honest and high-quality craftsmen in the nineteenth century in Serbia as well." Among the things that have *not* been accepted in *Hauzmajstor* is the habit of providing information upon finishing the given task and daily report-making, the second of which was humorously described as "the Serbs are obviously not being keen on making confessions, not even to their superiors." The start-up call center operator thought that, in practice, the principle of Western business culture did not prove successful due to the discrepancy between the *Hauzmajstor*'s marketing image and their actual performance—the main reason at the time being "that we promise too much, we offer to do everything, and yet we cannot do everything."

The most elaborate and open discussion about the repatriate's influence in the company, occurred with the technical manager, probably due to his free spirit but also to the close and relaxed relationship he has with the firm owner. This constructive and humorously presented criticism of "our Westerners" was essentially about the distance between the theoretical and abstract concepts brought from the West and the actual and very concrete problems of the Serbian entrepreneurial environment.

A picturesque illustration of how the technical manager talked about the tensions between Western and Serbian concepts of costs, gains, profits, business plans, and standards is given below:

I think that we'd have advanced much faster in business and been much better organized if the people who came from over there didn't hold us back. Why? Because these schools have standards where spreadsheets, feedback, and so on are demanded. And they continuously ask

for reports. Only numbers are important to them. I think that if you asked S. (the owner) about the cost of one serviceman per day, he would not know what to tell you. He never calculated the costs of the vehicles, their depreciation, gasoline, the salaries, and so on. Of course, in our heads we made some calculations because we learned this in the marketplace: For example, you know that if you buy three eggs you can't buy something else, but it's in the head, there are no calculators, no computers. So we kind of know where we stand between the gross and net gains.

However, I think that in this firm there is no official calculation such as: net gain is such and such, which we get upon subtracting all the costs. I ask: isn't there a single formula that they brought to us from the West that deals with this relation? Their function is indeed based on profit, but it isn't our peasant's profit that is calculated by the peasant coming to the market and saying: "I brought ten eggs, five dinars each, so my profit is when I subtract everything I spent for raising chicken." However, he does not calculate his own work, and neither did we ever calculate the value of the work invested, and in *Hauzmajstor* you have to do it because you pay salaries. So, at every moment, the peasant returning home from the market knows whether he is "good" or not. The West works according to reports based on three-month, six-month, and annual financial reports. I think that *Hauzmajstor* made some, as they call it, financial and development plans, and so on. I think that we fulfilled the development plans, but regarding these financial plans, or, as they call them, *business plans*, none of them were fulfilled, because they were completely inapplicable. And I am not saying this in a negative sense; they simply weren't realistic because we did not have a point of reference—you don't have anything against which you could measure your results. There was no other *Hauzmajstor* before that you could measure yourself against.

And here is another comment of the technical manager on the Western concept of office space applied in *Hauzmajstor*:

When we were fixing this office space, again, according to the standards of "foreigners," we made everything open, wide, with screens only, so that we all can look at each other, with the boss in the far center, and so on. But these partitions only have an aesthetic function, they are not sound barriers. Of course, we are all buddies here and we do not have secrets among us, but we definitely do not have an office in which you can sit and talk with someone in isolation. I'm unsure whether this is a good concept or not; in a way, it is and it isn't. We are used to have closed offices and especially the girl at the call center and the lady dealing with finances need concentration and quiet.

Tensions induced by the repatriate model

The results of the firm functioning according to new principles are visible in regard to the tensions that appear at the interface (here, interface is a spatial and not a temporal concept) between the traditional and new modes of business behavior. The main areas of tension recognized by the management are actually those mentioned above by the technical manager as discrepancies between the concepts of “our Westerners” and the everyday entrepreneurial life in Serbia.

These discrepancies are visible in the following oppositions: (a) serviceman as a machine and as a human being; (b) client as a number and as a social being; (c) costs calculated through spreadsheets, feedback, and reports versus costs calculated by the daily cost of a serviceman (including the cost of a vehicle, depreciation, gasoline, salary) and net gains; (d) business plans as ideal schemes and as usable devices based on referential experience; (e) strict and impractical regulations about the collection of daily revenue and a looser approach to the same procedure; (f) a 45-minute intervention-time standard and a longer, more realistic standard; (g) open-plan office space generally practical for routine communication and impractical for jobs that need concentration or more individualized communication; and (h) a database with clients’ feedback on their satisfaction with the performed service as a practical and attractive marketing novelty, while, at the same time, such a practice becomes tiresome for the staff and is not appreciated by clients.

Observations on “our Westerners” point to the opposition between their educational and work experience in the West, and the real-life experience that awaited them upon their return to Serbia. While abroad, they had acquired theoretical knowledge, lived and worked under normal circumstances with clearly defined standards in large firms with well-planned budgets, and then returned to a Serbian business environment that posed the complete opposite.

The servicemen and the call center operators contend that the main areas of tension are at the operational level. The servicemen pointed to the reversion of the category of the “family member” to the category of a “regular client,” and the “old private clients” to “firm clients,” the rejection of the traditional forms of hospitality, such as the acceptance of any kind of drink or coffee from the client during or after the service,

and the refusal of *baksheesh*, the traditional tip added by the client out of gratitude. Another nontraditional amenity seemed to puzzle the clients, and that was the right to make a complaint. Call center tensions are visible in the need to fight emotions with rationality in critical situations in which the client is nervous or rude, or more pointedly, in accepting the principle that a client is “always right.”

Advantages of repatriate and local associates

In the last interview the founder of *Hauzmajstor* was asked to comment on the experience that could be drawn from having repatriate and local associates on major positions in the firm.⁹ This is what he said:

The initial supposition was: If you bring in someone who is a repatriate, who does not have local experience, he needs time to adapt to the point of being able to work here. You bring a man who never worked in an international system, he needs time to recycle, maybe not as much in the substantial as in a formal sense, in order to understand the approach, the logic, the way of thinking, the way of communication.

He further explained that it is hard to generalize because many factors are involved, such as the type of personality, how “things click,” and how much trust develops. But, for operative work here, one could say that it might be more beneficial to take someone who is a good raw material and help him grow because he feels a greater belonging to the firm and the benefits of all of his own efforts and progress.

In the context of covering the distance to the optimal position in the center, the repatriate position would seem like going downhill and the other like going uphill, because the one who worked abroad has to lower his expectations and all that he has seen as a standard, and then he always has the feeling “but when I was there, I could do this or that.”

Looking more concretely at what has happened, it could be concluded that even during the start-up phase, high expectations were placed on a repatriate associate positioned as the junior partner in *Комон сенс*.

⁹How Serbian repatriates saw the advantages and disadvantages of their own bicultural background was investigated by the author of this text in a previous study, see Vučinić-Nešković (2003).

The result was that he could not integrate into the firm and left shortly afterwards. Meanwhile, the local minority partners and managers of *Hauzmajstor* stayed on and were successful in adapting the initial repatriate model of business culture to local conditions. What the management team tried to accomplish was described by the general manager: “We tried to make *шопска салата* [shopska salad], to mix the new professional approach to business with the theme of local character.” He imaginatively used the metaphor of *shopska* salad, which is a mixed salad with fresh cheese on top, originating from the border region of Serbia, Bulgaria, and Macedonia. Although made throughout Serbia, the cheese represents the ingredient that gives it a characteristic local flavor.

The founder’s view on the implementation of the model

During the last interview, the founder of *Hauzmajstor* was also asked to make an assessment of the results of the implementation of the initial business culture model. His response was as follows:

The most interesting conclusion that you could draw from all this is that in one entity it isn’t possible to create a business culture that’s isolated from the business culture or general culture in the environment in which you work. The business culture, which is narrower than general culture, is also a part of that general culture. What you see in a family, and what you read in the newspapers, and what you see in the city you live in, and how your parents have raised you—all of that is a reflection of business culture.

When musing over a rhetorical question as to whether he would go again with the same model of openness, the repatriate owner replied negatively. The lesson for the next time, and generally for the process that continues from here, is that the Serbian environment is not entirely ready for it. He thought that people do not understand this model because they have not had a chance to see and experience it anywhere else.

The distrust was incredible. People just did not expect this kind of openness, and I think that in the first few months they looked at it as they would at the Seventh Wonder of the world. And then, some swam with it, and some didn’t. And the success that came out of all this is that we have a core team, a basic team that accepted this model. Thus, the lesson that could be drawn from all this for the next time is that this model

should be introduced in a bit more sensitive way, which means that people need to be opened up and prepared slowly for becoming a part of an inner circle.

He continued to explain that this was the reason that this modified approach was applied in the second round of hiring, and it proved to function much better. “We simply gave them a model that’s closer to this environment, which is still flexible and creative and new, but is more suitable for this country, more suitable for the environment we live in.”

Going back to the principal point just made, he was again asked: What kind of openness are you exactly referring to? Does it concern information and knowledge about the firm itself? The answer was:

Yes, it’s like this: “How come you brought me into the firm, you gave me a computer right away, a car, a salary, you share everything with me, you talk to me about how the firm’s doing, whether we have enough money, whether our results are good?” People just do not expect this. One expects that he’s the employee and that you’re the boss, that you give him his salary and do not draw him into taking responsibility. Thus, his role is to be an employee and to keep a distance from you, to prosper as much as he can, to cut corners if possible, but also not to be the one to take a step further in order to help the whole firm become more successful, because it isn’t his firm. It is always an “it’s yours, it has nothing to do with me” principle that brings everyone down to two fronts, the employer and the employee. Now, the people who succeeded to bridge this gap realized that this is their firm as well, in terms of both content and form. Those who didn’t have an adequate degree of trust have fallen out of this process.¹⁰

Assessment of the Hauzmajstor Business Culture

The *Hauzmajstor* story seems to be one of success. When speaking with the general manager of *Hauzmajstor* during the bargaining period, I got the following explanation of the Austrians’ interest in buying:

They don’t want to buy *Hauzmajstor* because the story about a “big firm” went around the world, but because they know that large-scale infrastructure maintenance in Belgrade is a problem that has not yet

¹⁰ Cf. Janićijević (1997).

been solved, and that it will have to start being solved, so they started examining the market. For them, it's also cheaper and much easier to buy a small firm that's on the rise, that has just taken off, which can give them some local management and which is without a social agenda and without big politics, than to enter into some larger establishment that would need to be overcompensated.

Giving a slightly more detailed account of the negotiations process, he accentuated the following:

The most interesting part of the story about their visit was that we could only present *ourselves*. We were not like a powerful bank, so that they could see the building, the millions, the jets—they could only see an office and the leased vehicles. This means we could only present the way we work, how we are organized, and our simple selves. We did not yet have any hard value to present. Also, we were still in the start-up phase, so we were not yet profitable. We were selling the potential, and they were buying the potential.

Anyway, they had two possibilities in mind: The first one being that they buy the controlling portion which means 51 percent, and the other that they buy 100 percent. We ended the deal with a 51 to 49 ratio, favoring them. So, I feel very proud because I think this is the first time in business here that a small 70-year old private company, that is, an authentic Western company, meaning that there is no trace of any questionable investment funds, bought the controlling stake in a one-year-old private Serbian company.

Towards the end of the research period, an interview was made with the *Rustler Group* area manager for Central and Eastern Europe who had been primarily involved in negotiations with *Hauzmajstor*. When asked how the business culture of this firm compares to that of other East European firms, he pointed out the following: "There can be no comparison with other East European companies, but with the Western ones, and even then, only with the best of that size." This statement again highlights how successfully the repatriate business culture model has been implemented in the *Hauzmajstor* project.

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A Small Miracle without Foreign Investors

Villány Wine and Westernized Local Knowledge

Éva Kovács

The Transition of the Rural Economy in Hungary

The story I tell here is not a conventional example of cultural encounters in Hungary. Why did I choose a winery for field research and why in the Villány region? First, I will make two arguments *against* this choice.

A. In the early 1990s, the rural transition as a whole did not follow the same path as wine production in Hungary. In general, there were two main techniques to privatize agriculture:

- The ex-communist agrarian elite went to great efforts to acquire public assets (the former cooperative and state farms) and to modernize them (Juhász 1998, 1990; Bihari, Kovács, and Váradi 1996).
- The local governments purchased land in the vicinity of their towns/villages at low prices and attracted foreign capital to launch *green-field* investment projects. Typically, foreign investors established food-processing companies with the hope of very fast returns on their investments (note: Hungarian law still does not allow foreign persons or institutions to buy land for agriculture) (Baumgartner, Kovács, and Vári 2002). These projects helped reduce unemployment emerging after 1989 and introduced new Western patterns of economic culture.

By definition, a vineyard does not lend itself to the same techniques of economic restructuring as arable land because:

- Communist laws set the size of family plots to a maximum of 0.287 hectares. After 1989, both new domestic and foreign investors had great difficulty in establishing compact medium-sized vineyards (50 hectares at a minimum).

- Grape vines need five to seven years to mature and are extremely vulnerable to weather conditions.
- Grape cultivation is labor intensive, with limited opportunities for automation.
- Establishing a modern, *château*-type winery is a relatively large, capital-intensive investment, which holds out little hope for a fast payback. Because of the high risk and large capital demanded for wine production, one can find but a few foreign investors in this sector, and if any then they are “silent partners.”

B. For the past half century, Eastern European wines did not have a good reputation in the Western world. At the end of the 1940s, the historical wine regions in Hungary were reshaped by the planners of COMECON to produce sparkling wine (a pseudo-champagne to be sold in the USSR). The end of the COMECON era resulted in a series of improvements in the Hungarian wine market, and today one can witness the mushrooming of private wineries and wine cellars that produce wine on plots ranging from 4–5 to 100–200 hectares. However, the new image of quality Hungarian wine has hardly crossed the national border, as of yet. The Western European wine trade companies are still skeptical about Eastern European wines, and the cheap American and South African wines have generated fierce competition in the European market. Moreover, the historical wine regions in Hungary are extremely small and unable to produce wines of a standard quality and in sufficient quantity for the large European market.

The above features suggest that Hungarian wine production would yield a rather low intensity of cultural exchange between East and West, as compared to other agricultural and industrial sectors. Thus, it is the locality, in our case the socio-cultural characteristics of the Villány region, that justifies our choice.

Villány’s Historical Background

Villány is one of the eight historical Hungarian wine districts situated in the Siklós (Southern Transdanubia) microregion. Altogether, there are 22 wine districts in the country (Hungarian Wine Regions 2000). Since the seventeenth century, wine has been produced in this district by ethnic groups such as the *rác* (Serbs) and later the *sváb* (Swabians)

(Lajber 2001). At the turn of the nineteenth and twentieth centuries, Villány wines were well known throughout the Austro-Hungarian Monarchy. Between the two world wars production stagnated, and in the aftermath of the Second World War the industry underwent a severe crisis due to mandatory population exchanges, collectivization, and cooperation within the COMECON.

After 1989, Southern Transdanubia became one of the most depressed rural regions of Hungary (for example, unemployment in 1991 amounted to 32 percent). The shutdown of the coal and uranium mines in the regional center, Pécs (a town of 200,000 inhabitants), and the bankruptcy of the cooperative and state farms resulted in tens of thousands of unemployed (Magyar Régiók Zsebkönyve 2002, 3–20). Southern Transdanubia's marginal position in the country, and the lack of good road infrastructure made it difficult to connect the region with Budapest and with potential foreign investors. The ongoing war below Hungary's border in the former Yugoslavia also had a detrimental effect on the development of the region (two to ten kilometers from the Croatian–Hungarian border). In 1991, Western investors suddenly left this uncertain environment behind.

Nevertheless, during the last fifteen years, local business life has begun a small renaissance, largely based on the self-organization of winegrowers and villages. Some of the villages have risen from poverty and revitalized and modernized the old technologies and habits of wine production. In 1994, they founded the Villány-Siklós Wine-Route Association (VSWA), an NGO based on a group of “middlemen” who organized the third sector of the local economy, including tourism, and produce new local cultures (www.borut.hu). The leaders of the Wine-Route Association are wine producers and/or leaders of the local authorities with well-established networks and local knowledge.

There is overwhelming evidence that the local inhabitants—with the help of their traditional wine culture—have undergone a process of self-Westernization. The key question of this case study is how this “small miracle” happened.

Field Work

The pilot phase of my study was based on field work originally made between 2002 and 2004 (Kovács 2004). This paper relies on 40 additional interviews with 30 persons or institutions (16 of them are wine

Table 2.1. Research Methods

Actors	Type of interviews	Analytical frames	Additional materials	Results
The Great Five	Narrative biographical interviews 1) opening question: “You are one of the biggest and most creative wine producers here, who was active from the beginning of the privatization of wine production. May I ask you to tell me your life story?” 2) other narrative-type questions on cultural transfers	Reconstruction of the 1) modernizer / Westernizer identity; 2) “East–West” cultural transfers 3) local network 4) values, imagination, other normative skills	published interviews and other media materials (newspapers, websites, books)	comparative — follow-up — analysis of self-reconstruction comparative analysis: private/ individual imagination vs. public image Level 1: Easternization of “Western” values
New foreign investors	Narrative biographical interviews 1) opening question: “You are a new actor in the Villány wine-producing community, who transplanted new knowledge and technology. We are interested in how you chose Villány and what kind of experiences you gathered here. May I ask you to tell me your life story?” 2) other narrative-type questions on cultural transfers	Reconstruction of the 1) modernizer /Westernizer identity 2) “East–West” cultural transfers 3) local network 4) values, imagination, other normative skills	published interviews and other media materials (newspapers, websites, books)	comparative analysis: private/ individual imagination vs. public image Level 2: Westernization of “Eastern” values
Other local actors	Semi-structured interviews on: 1) their role and share in wine production 2) the foreign partners and the experiences of the locals with them 3) cooperations and conflicts with the Hungarian and foreign wine producers 4) the story of the renaissance in Villány	1) map of conflicts and cooperations 2) network with the Great Five 3) “East–West” cultural transfers 4) strategies of legitimacy	media materials, official documents	comparative analysis: The institutional narrative vs. the private narratives of the Great Five Map of trans-local conflicts and cooperations Level 3: Westernization of post-socialist values

producers), participant observations, and on a large amount of materials related to the media and online representation of the Villány story.

In the interviews I followed my usual methodological principles (Table 2.1), but posed a new opening question: “*Could you remember the very first moment you knew you produced a really good wine?*” Thus they could reconstruct their “Westernizer” identities, since in their minds a “really good wine” comes, by definition, from the West. As a second thematic field, I chose their first meeting or cooperation with Western partners (for example, relatives in the former West Germany, wine festivals, and so on). In the third thematic field, I asked them about their cooperation and rivalry with other local wine producers.

Self-made Communities, Self-made Men

Conceptual frames

Before engaging in an extended description of the case, I will identify its keywords and main issues. The following cover the most important drivers of the self-Westernizing process in Villány.

- *Proto-entrepreneurship*. Villány started flourishing in the early 1980s, when many of its inhabitants took second jobs as small-scale entrepreneurs, partly informal or semi-formal, not only in wine production but also in the third sector (they were not typical “socialist entrepreneurs” at all [Szelényi 1992; Kuczi 1998; Szelényi and King 2005]). These second jobs introduced a new proto-capitalist culture into everyday life.
- *Preliminary accumulation of capital* (Szelényi 1998). Between the early 1970s and the late 1980s, the new winegrowers purchased small plots and illegally sold their wine in the local market. As proto-entrepreneurs, they were open to absorbing new technologies and developed creative business attitudes (Laki 1998). They smuggled relatively old Western industrial equipment into the country, mostly from West Germany. The extra income from their second jobs reached such a level by the end of the 1980s that they were able to start their first “real” enterprises (an inn, a wine-cellar, a second plot, and so on) after 1989 without any local or foreign financial assistance.
- *Knowledge and network resources* (Czakó and Sik 1999). Some of the new winemakers were highly qualified agronomists who learned their profession under communism. For historical

reasons—often being ethnic Germans who were discriminated against in the 1940s and 1950s—they could not achieve just any career within the communist apparatus: learning was the only chance for advancement. The German inhabitants of Villány have maintained good contact with West German citizens (former expellees from the region) (Kovács 1990). In the last two decades of the communist period, the shadow economy flourished on the basis of “imported” goods and knowledge from Germany. A special advantage of the inhabitants, including the non-“*svábs*,” was bilingualism (or trilingualism—the third language being Croatian), not to speak of their informal, semi-legal contacts with Western tourists who bought wine in the private cellars. In the early 1990s, the new winegrowers organized study trips to the wine districts of Rhine (Germany), Alsace (France), and southern Styria (Austria); imported Western knowledge and institutions by founding the VSWA (Wine-Route Association); modernized the cellars with the help of PHARE (Poland and Hungary: Aid for Restructuring of the Economies) funds and domestic subsidies; and developed regular contacts with similar NGOs in Europe.

- *Traditions of industrial wine production.* The region and Villány itself has a long tradition of modern winemaking. In the nineteenth century, the Duke of Savoy and the Count of Batthyány modernized their manors by means of the best European technology. A Jewish merchant and winegrower, Sigmund Teleki, founded the Château Teleki Winery in 1881. He was not only a supplier to the Imperial and Royal Court in Vienna but also discovered resistant varieties of grapevines during the *phylloxera* epidemic that swept through Europe. The manors and the Teleki Château were collectivized and/or nationalized after 1948, and this tradition fell into a deep slumber during the second half of the twentieth century. Perhaps surprisingly, after the privatization of the former state farm in 2002, the new owner chose to destroy the old château and build a new winery that imitates the style of North American wineries. Thereby, the new owner also rejected the old European (Italian and French) designs. Hence, the local historical traditions of industrial wine production do not play an important role in Villány today.
- *Traditions of professional education.* Originally founded as a high school for winegrowers by Sigmund Teleki at the end of the nine-

teenth century, the College of Viticulture in Villány may have a bright future. This school managed to last through the communist era and maintained some continuity in wine education. Today, teaching viticulture has had a renaissance not only in the Villány college but also at the University of Pécs. These schools train both wine production experts and gourmets as wine consumption has become a trend and status symbol of the Hungarian *nouveaux riches*.

Main Actors

“The Great Five”: Patterns of self-westernization

The main actors of the above scenario are five entrepreneurs who triggered a “small miracle” in Villány. From a biographical point of view, the “Great Five” (Tamás Gere, Attila Gere, József Bock, Ede Tiffán, and László Polgár) show some special common traits: they are members of a closed, family-based local community in Villány who have kept in touch throughout two or three generations; they are all ethnic Germans; they are friends; they have produced quality wines since the end of the 1970s; as young men they traveled frequently to West Germany; they were professional leaders in their first jobs (as a foreman, department head, senior engineer, and so on); they decided in a ritual act to found modern wineries in Villány.

As a consequence of the 1947 expulsion of ethnic Germans from Hungary, those families that later had a chance to stay or return to Villány did not trust their neighbors and kept them at a distance. In this unsettled atmosphere, family relations were highly valued and the feelings of ethnic belonging were maintained. As an unintended consequence of this situation, individualized life strategies were less manifest than in other social groups. The family leaders (the fathers of our interviewees) tried to reestablish their former farms—naturally—within the framework of communism. From the early 1950s, the fathers of the Great Five began to repurchase their former houses and plots (this was only possible in cooperation with other members of the family network) and to produce and sell wine again. One of them won a prize at an international wine competition as far back as 1976. At the end of the 1980s, the families already possessed vineyards of five to seven hectares each.

Those family members who had been displaced to West Germany in the 1940s maintained a wide network. Since the 1970s, it became normal for them to travel to Germany (an “average” Hungarian could travel to the West only once in every three years, but if one had relatives there and a special reason for the trip—marriage, burial, and so on—he/she could get a travel permit more often). It was not only them who traveled, but their Western relatives also frequently visited Hungary. In the 1980s, the cultural exchange between East and West reached a high intensity at the local level: besides the customary consumer goods (clothing, cosmetics, hi-fi, and so on) the Villány Germans imported special—albeit used—machines for wine production (cultivators, bottlers, filter systems, and so on).

However, the above-stated conditions would not yet produce a miracle. In Villány, nearly everybody had a small wine plot and a cellar and managed to produce at least a few barrels of wine. Traditionally, the inhabitants of the village made wine as a second job or passionate hobby. Ironically, the “Great Five” chose other professions for themselves—one can even notice a desire to escape from the agrarian past of their families. Our protagonists made successful careers as self-made men outside the wineries before founding their wine businesses (Kovács, Bihari, and Váradi 1998; Laki 1984/85).

Last but not least, all of them had formative individual and collective experiences which drew them into wine production. In one case, a change in family life prompted a turn to the winery and return to family roots: two of the five married into another established winegrowing family and three of them were called by their fathers in an emotional symbolic act of continuing the family tradition. The five winegrowers produced their first own labeled bottle together in the framework of what I would call a ritual “wine agreement” in 1985. That agreement served as a founding myth of modern winemaking in Villány.¹

¹ The story is possibly nonsense. Prior to 1985, the winegrowers already sold their grapes or wine to the state farm. But in this year, they were also allowed to bottle their own wine. For the sake of practicality, they infused the wine in a common container, and filled the mix into bottles that carried their respective names.

The “Great Five” also have a common four-step *chronology* of modernization:

1. preliminary accumulation of capital; a ritual agreement in 1985;
2. 1989–91: starting the wine business with the first investments and study trips to Germany, Italy, and France;
3. 1994: building new cellars and wine-processing plants with high-tech equipment; founding the Wine-Route Association;
4. 2002: enlarging the cellars and plants to consolidate the winery “for the next 100 years.”

One can observe a peculiar parallelism and linearity in the development of the five wineries. This can be explained by two factors: (a) adjustment to each other in modernizing the production; and (b) the special macroeconomic conditions of wine production as a whole. The second factor is important in our case insofar as the PHARE program made the first really big investments in the vineyards possible, while the first one is relevant from a sociological point of view. Since the very beginning, instead of a fierce competition, the “Great Five” have taken their cue from each other and jointly constructed the new image of Villány.

Here in Villány, it was always a question of prestige that you had to have a good wine and a nice vineyard. Since the early 1980s, we have organized wine competitions among friends, but also in the cooperative and state farms.

—József Bock

In 1987, the best wines of Villány were chosen by the state farm that paid more money for them than earlier. Our wines were eventually pumped into the same tank, but then they were labeled as our individual wines, with our names: Tamás Gere, Attila Gere, József Bock, Ede Tiffán, and László Polgár.

—Tamás Gere

I had very good friends, and I was the biggest winegrower among them—the others had smaller plots than mine. I said, folks, could you come and help me to clean a big barrel? The friends helped me a lot, it became natural to help each other, thereby we forged tight bonds, and for 25 years we have seen each other every day, had dinner together.

—József Bock

Actually, the events followed each other. Today, I bought a plot, tomorrow I planted it, the next day I began to construct the building, and after that I bought a plot again and planted it. So it happened in this way, in a very continuous way.

—József Bock

In 1989, or before, we, four or five farmers, began to bottle our own wine and started to establish wine tourism in Villány. Our sudden prominence called attention to Villány, and this became the basis of our success story. Parallel to this, we sent our wines to international wine competitions. The international media of experts began to correspond with us. Thereafter, Swiss, Austrian, and German wine traders visited us and put our names on their lists. This multi-actor game gives us security. In Villány, we live in an especially fortunate situation. The wine district is very small, so overproduction is impossible. On the contrary, we also need the wine of the big entrepreneurs and wineries—naturally, their good quality wines—to stabilize our fame, reputation, and the name of Villány itself. Therefore, we support the giants as much as possible. The status quo in the town must be tolerated by everyone because the world market is gigantic.

All these factors led to an extraordinary situation in the private sector. And the Villányer recognized it very early, at least we at the top did, and we supported the others following us. We are together around the clock; never hiding anything from each other. It doesn't mean that we never compete. As you know, we take part in wine competitions and are all in a fever as to who will win from among us, that's all.

—Ede Tiffán

In my Wine Treasury, I invited all winegrowers to showcase their wines and we opened a common exhibition. We often taste our wines together, celebrate new wines on St. Martin's Day, when I invite the media and some actors. I must also say, I know, sometimes there is a catch to it, when I encourage these common activities, but I believe we must show a uniform face to the outside.

—László Polgár

Attila (Gere) and I are cousins; moreover, he married the younger sister of my wife, so we also became brothers-in-law. At family feasts, we usually celebrate together, our wives and children have very warm relations, we see each other every

week and taste our wines. Even now, we accompany each other to football matches every weekend, and after that we drink a beer or a glass of wine somewhere.

—Tamás Gere

Malatinszky Mansion (Malatinszky-Kúria): The lonely rider

In addition to the “Great Five,” there is another important winegrower in Villány: Csaba Malatinszky, who chose a completely different way to develop his business. He comes neither from Villány nor from the winery profession. He was born into a noble family and his winery conveys the atmosphere of an old mansion. Although he was a philologist, in the middle of the 1980s he worked as the first sommelier in Hungary: in the *Petneházy Country Club* and at the *Gundel* restaurant in Budapest. At the same time, he often traveled to France and studied the French *châteaux* and new technologies in wine production. He was also the first to import a wine refrigerator when he opened his wine shop in Budapest (this was also a pioneering venture). He bought his vineyard in Villány in 1991 and built his winery outside the town in another village, Máriagyűd, in 1997.

In contrast to the “Great Five,” Malatinszky speaks English well, though no German, and embodies a fundamentally different type of winegrower. He is a consumption expert, a gourmet, and a wine specialist who promotes himself on his website (www.malatinszky.hu) as “an intellectual with noblesse and finesse.” Although he bought a vineyard in the Villány wine district, he does not want to closely identify himself with the region. He was the first in the region to try to produce *cuvée* wines, but when the others followed him, he turned to *Medoc*, and for the last couple of years he has been experimenting with *sur lie* (unfiltered) wines.

His peculiar *ars poetica* is individualism and performance. He does not join the Villány colleagues in local wine competitions or in the VSWA. At the national and international wine exhibitions, he has his own stand that is separate from those of the other winegrowers in Villány. As a distinguished alien, he is not located on the mental radar of the group and the other interviewees hardly ever mention his name. Nevertheless, not only does his vineyards equal the size of the “Great Five” but on average his international success is also similar. In 2005,

his wine was the first Hungarian wine ever to be served by the Four Seasons Hotel in London. He has good market connections in Japan as well. He also wants to develop his own marketing network in the near future.

The Châteaux

Thus far, I have only presented the six medium-sized enterprises (approximately 220 hectares altogether) which triggered the renaissance in winemaking in the Villány region. However, they form only one of the minorities in the Villány society in terms of their business potential. The other minorities include small entrepreneurs and farmers, although these two groups did not play a very important role in the modernization of the wine industry.² Much more significant are those companies (Csányi, Vylyan, and Villányi Szársomlyó) which, with their total of 620 hectares, represent the bulk of wine production in the region.

² The small enterprises (20–25 companies with 3–15 hectares, in total approximately 400 hectares) and the family gardens (approximately 550 persons/families, altogether 240–280 hectares) mobilize specific economic skills and values in the East–West cultural exchange. Together with the other winegrowers and inhabitants of the town, they create an ethnoscape (Appadurai), a unique and homogenous ethnic landscape relying on their German traditions. They not only sell the image of the “perfect” family to tourists, but they also function as real households, because they pursue a conventional division of labor within the family. The parents do the traditional types of work while the children fulfill the modern professional tasks.

The family gardens constitute the majority of winegrowers. Under communism, most of them were employed by the cooperative farm. Wine production is a traditional family activity for them. They do it as a hobby and use it as an additional source of income. Today, the small farmers live under the pressure of a great many legal requirements and the buy-out operations of the bigger entrepreneurs. They are aging and if their children do not continue production, they will have to give it up. For the time being, they still find a place for themselves in wine tourism.

The Csányi Winery—The sleeping lion

*Wine is wisdom—wine is joy
Wine is character—wine is inclination
Wine is passion—wine is profession
Wine is sacred—wine is thirst
Wine is nature—wine is creation
Wine is magic—wine is chemistry
Wine is poetry—wine is science
Wine is devotion—wine is perfidy
Wine is sunlight—wine is night breeze
Wine is mystery—wine is truth*

www.csanyipince.hu

As we learned from the “Great Five,” the ancestor of the Csányi winery, namely the state farm (in popular parlance, the *borkombinát*) was instrumental in proto-entrepreneurship. The future private winegrowers worked on the state farm and organized their business networks from there from the early 1970s on, when the state farm began to buy up the wine of the local inhabitants. Moreover, the state farm bottled their wines and labeled them from the middle of the 1980s on. The “Great Five” also talked about a few conflicts with the *borkombinát*, not only in communist times, when the Villány wine region was exposed to COMECON, but also in the early 1990s, when the restitution process started. The Villány people hoped to get back their former plots, but neither the cooperative nor the state farm tendered their vineyards in an open privatization procedure. In the beginning, this frustrated the old-new winegrowers, and forced them to expand their vineyards to faraway areas. An unintended consequence of their frustration was the recultivation of former vineyards from the nineteenth century and closer cooperation between the entrepreneurs.

Up to 1997, the ownership structure of the *borkombinát* changed a few times. ÁPV Ltd. (State Privatization Company) and MFB (Hungarian Development Bank) empowered a Hungarian group of owners to concentrate the capital stocks and to defer, or rather hinder, open privatization. As one of the latest privatization deals in Hungary, Sándor Csányi (president of OTP—the National Savings Bank, one of the ten richest people in Hungary) and István Kocsis (former boss of the Hungarian Electric Company, later that of the Nuclear Power Station

in Paks and the Budapest Transport Company) took over the state farm, using a variety of mediating agencies (offshoots of OTP and other companies) in 1997 (HVG 2003).

The production manager of the Csányi winery, who has worked in the same job since 1970, mentioned that the new owners were ambiguous about what they really wanted to do with this large vineyard (now 300 hectares). It took a good five years for them to start the new business; however, wine production never ceased to exist in this period. In 2002, they invented a new image for the winery and founded the Csányi *château*, following a mainstream American design. In their *ars poetica* on their website (www.csanyipince.hu) they stress the old Villány tradition, more exactly that of Sigmund Teleki. This is, however, a rather cynical move because they destroyed the original Teleki *château* and chose the name of the largest owner for the name of the company and its wines.

The decade-long hibernation was advantageous for the smaller actors in the region. During this period, they built up their wineries and developed an image that became well known throughout Hungary. Thanks to this, when the Csányi winery started its “roll-out” in the wine market, it did so very carefully and used the readymade Villány image for its own purposes. It did not stress its own monumentality yet, and introduced itself as but one of the Villány vineyards. This moderate self-representation conflicts with the aggressive rewriting and partial liquidation of the Teleki tradition, and last but not least, with the opinion of the mayor of Villány, who criticized the low profile shown by the Csányi winery in the life of the community. The “Great Five” also note the revival of the *borkombinát* with some criticism, though they do not mind so much because they produce quality wine while the Csányi winery targets mass consumption.

A key figure in this “velvet revival” is the production manager, who has a well-established network in the locality; though he has never lived in Villány. He was quick to recognize the renaissance of the “Great Five” and mediated between them and the new owners “from the capital.” He also realized that the Csányi winery benefits from the others’ recognition, and promoted cooperation in town and modest self-representation in business life.

The Vylyan – A modern factory on the backstage

In every kind of wine there lives a little angel who, when we drink the wine, does not die but joins the innumerable little fairies and angels living inside us. When we drink, those already inside us welcome the arrival of the little genius with songs and shovels of flowers. The little fairy is spellbound and almost catches fire out of joy. It is the flame of joy that permeates us and enchants us as well. There can be no defense against this.

Béla Hamvas, cited at www.vylyan.hu

Vylyan, the second largest winery in the region, was founded in 1988, right after the enactment of a new company law in Hungary and right before the end of communism. Its owner, Pál Debreczeni, came from Szeged, where he had worked in the early 1980s as the head of the financial department of the city hall, then as the director of the *Ecset-és Seprűgyár* (Brush and Broom Factory, BBF). As one of the pioneers of privatization, he transformed the BBF into Domet Ltd., and finally, with the capital of Domet, privatized the cooperative vineyard in Kisharsány (a village close to Villány), together with some of his friends. Up until 2004, he had invested one billion forints (four million euros) in this company. Immediately after the foundation of the winery, he became the sole owner and nobody knows why the others quit. Up until his premature death in 2004, he managed both the Domet and the Vylyan winery. The vineyard exceeds 200 hectares.

This was the first *château*-type vineyard to break with quantity-oriented wine production and to limit the yield to achieve higher quality. Debreczeni invited French experts who helped him modernize both the vineyard and the cellar. They established pilot grape plantations and competed in the major wine competitions. In order to create the *château*-image, he expropriated the medieval name of Villány (Vylyan), although the company is not actually located in the town.

Debreczeni deliberately isolated himself and his company from the other winegrowers. He did not join the VSWA and was not intrigued by wine tourism. He set up a closed and essentially aristocratic *château*-type mansion as if he were a genuine lord. He organized exclusive parties for high society but he hardly ever appeared in the circle of the

local elite: he did not need anything from them. The great advantage of the Vylyan winery, in comparison to the others, is that it produces wine only from its own grapes, whereas the “Great Five” are forced to buy grapes from smaller growers. (Having your own grapes is a guarantee of standard quality.) As a result, Vylyan has won important prizes at the big international competitions, from 1998 on. Its website suggests that Vylyan strives to display a Toscana-type image in the international wine market. Last but not least, it has the widest domestic market in Hungary’s high-end restaurants.

In the last couple of years, there has been some change in the ownership and structure of the company. In 2003, the brother of Pál Debreczeni, Kálmán Debreczeni, the former chief executive of *Dunabank* (Danube Bank) left the company, and following the death of Pál Debreczeni in 2004, György Zdeborszky, then the president of MFB (Hungarian Development Bank) raised his capital share from 10 to 45 percent. Debreczeni’s widow still works at Vylyan Ltd. as controlling director and public relations manager.

Observing these changes, one can argue that the interest groups behind the Csányi and the Vylyan vineyards show certain similarities. Earlier, both owners were so-called “socialist entrepreneurs” who converted their network capital into real economic potential, even before the transition. Both isolated themselves from local conflicts and insisted on the position of a distinguished outsider while using the existing image of Villány. Nevertheless, they are not mere free-riders on Villány’s development, but also pioneers in the traditional meaning of the word: similar to the old farms and *châteaux* in the nineteenth century, their companies—as modern agricultural factories—exhibit institutional models and new technologies that the smaller entrepreneurs can copy.

The Villányi Szársomlyó Mg. Ltd.: An old-timer

This *château*—more precisely, agricultural factory—is the successor of the former cooperative farm (*Új Alkotmány Mgtsz*, which means *New Constitution Cooperative Farm*). It was founded very early, in the first phase of collectivization at the end of the 1940s and was privatized very late in 2004 as one of the last agricultural cooperatives in Hungary. The new company has a mixed production profile because it makes not only wine (on approximately 130 hectares, 30 hectares of which is in the vicinity of Pécs) but also has an agricultural and an animal-breeding division.

The new company has 200 shareholders, including new investors, and the former cooperative members also have a small share. The majority shareholder, János Czigler, is the ex-president of the cooperative farm whose biography is vastly different from those of the above-mentioned winegrowers. He is a veritable communist *cadre* who served as party secretary in the cooperative during the 1980s, and pushed out two of the “Great Five” and their colleagues from the farm in the course of the economic transition. He kept his power after 1990 and slowly but steadily bought up the plots of the old and/or dependent and vulnerable cooperative members. At the most difficult points of this operation, he invited his old party friends to join in, and in 2005 this ex-communist group of new owners took over the majority in the company.

Historically, the slow modernization and transition of the cooperative were advantageous for the other actors: like the *Csányi Château*, the *Új Alkotmány Mgtsz* slept through the 1990s while the others were growing. However, while Csányi was waiting for a perfect moment for privatization, János Czigler worked actively in the background. The relative slowness of the cooperative farm was rooted in the fragmentation of the ownership structure. It needed time to concentrate the plots and the power.

The company found a different segment of the wine market from that of the “Great Five”: it established its own network of wine shops in Baranya and the neighboring counties under the name *Villányi Borok Boltja* (Villány Wine Shop). It has twenty-four shops that sell its own wine exclusively. A customer can find all kinds of wine there, ranging from expensive, more than decade-old, so-called museal wines, to two-, three- and five-liter plastic jugs of table wine. Besides the small entrepreneurs, the company is the only one in the Villány region that sells wines in plastic bottles, attracting low-end consumers.

Villányi Szársomlyó Ltd. profited not only from the Villány image but also from the Teleki legacy: notably, it took control of the Wine Museum and the old Teleki cellar. The latter has been continuously working since 1754. The company is more open to public life in the town than the *Vilyan* and the *Csányi Châteaux*. It organizes local, regional, and national feasts in its cellar and, what is more important, it has everyday contact with the inhabitants through the shareholders and its large number of employees.

Conclusions

At the formative points of the economic transition, virtually nobody came from the West to invest capital and know-how in wine production in Villány. Why not? Probably because this wine region is considered too small for a major Western entrepreneur. The war in former Yugoslavia also had a detrimental effect on the development of the region: those few Western investors who had arrived earlier suddenly departed in 1991. At the same time, the large, local, former-socialist enterprises were incapable of revitalizing winemaking in Villány. They were busy privatizing and concentrating their capital, not always in a legal way. Stagnation, isolation, and slowness: these attributes characterized the three largest wineries in the first decade while the new market conditions pushed the old-new entrepreneurs (the “Great Five”)—who were, by the way, on the losing end of privatization—to invent themselves. The synergy of the lack of foreign investors, the impotence of the state and cooperative farms, and the creativity of the “Great Five” (and their followers) resulted in the recent upsurge of the wine business in Villány.

Creating an *ethnoscape* (see note 2) on the basis of wineries has had its positive effects. It stopped migration from the region. The vineyards offered new jobs; the new high-tech wineries improved management as well. The “Great Five,” as an elite group in the town, orchestrated the renaissance of the whole community and re-integrated the locality in the new image of Villány. The modernization of wine production also contributed to the development of education (whereby winegrowers study the technologies of wine production, marketing, tourism, gastronomy, rural development policy, and so on). The adaptation of Western standards affirmed the quality control systems and resulted in repeated victories at international wine competitions.

It the beginning, the actors of the “small miracle” in Villány imitated their Western role models in a very conscious manner: they wanted to produce quality wines. This implied the protection of the rural environment and ecological values of the region, and the extension of the wine market on both the domestic and European fronts. The new image of the town resulted in the preservation of the cultural heritage of the villages and in the representation of the local interests of the entrepreneurs. Currently, they are not only successful entrepreneurs, but also

formal or informal coordinators of the communal, infrastructural, and environmental programs in the region. They have learned Western skills of fundraising, brainstorming, and international project management.

As an unintended consequence of this process, local entrepreneurs re-invented the Villány tradition by historicizing the wine cellars, rediscovering their ethnic-German culture, and creating a new fashion for wine consumption. With the help of the Wine-Route Association, Villány has become part of a larger virtual and trans-local network of European wine-producing communities. In discovering their new image, they produced hybrid forms of Western and Eastern economic cultures: they serve French or Italian quality wine in ethnic-German costumes to Japanese tourists, thereby—ironically—creating a new *Hungaricum*.³

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³ This is a designation for “very” Hungarian products such as Tokaj wine and Kalocsa paprika.

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From Local to International and Back

Privatizing Brewing Companies in Eastern Europe

Ildikó Erdei and Kamil Mareš

Introduction

The aim of this paper is to compare a number of case studies from the DIOSCURI research project that deal with privatization processes in the food and beverage industry (Erdei 2007; Mareš 2007; Mester 2007; Topolčić 2007). The enterprises concerned differed in scope, type of industry, and economic activity. Still, what was common was that they all went through privatization and consider their own privatization stories successful.¹ Following a preliminary comparison between the cases of brewery privatization, and informed by recent empirical research projects on the post-communist transition (Burawoy and Verdery 1999; Dunn 2004; Humphrey and Mandel 2002; Kovacheva et al. 2005; Tchalakov 2005; Verdery 1991), which argue against a simple transfer of Western (international) values, institutions, and procedures, we assumed that the success of the privatization deals had to be related to the interplay of global and local aspects of change.

An Ideal Historical Sequence

Dimensions

DIOSCURI case studies on the food and beverage industries in Central and Eastern Europe have been used to derive an *ideal historical sequence* for breweries between 1989 and 2006. This construct will be used to obtain a brief overview of differences and similarities of six breweries (Table 3.1). The ideal historical sequence contains five

¹ One of these breweries in Serbia was later sold to a larger international company. Soon after the brewery was closed, the majority of workers fired, and the complete production of the renowned local brand was transferred to another brewery in eastern Serbia, owned by the same company. Thus, this case eventually turned out to be a bitter story, an unsuccessful one for a majority of actors, except the international company whose strategic business goal—market share without much human and organizational load—was achieved.

dimensions: ownership, economic culture, organizational structure, types of personalities, and products.

Ownership: First-stage ownership means ownership by a number of actors as a consequence of the privatization of the company into a shareholders' company. In the case of second-stage ownership, a majority of shares is owned by one foreign company. With third-stage ownership, a majority of shares is owned by a large international company or investor.

Economic culture: The first stage of economic culture is a remnant of communism with a fragmented ownership structure, an incompetent top management, an eroded authority of middle management, and corruption. The value stressed most strongly is *survival*. The second stage of economic culture means changes introduced by a foreign owner: changes in staff, technological equipment, and organizational structure. The prevailing values of this stage are quality and efficiency of production, and expansion of markets. The third stage of economic culture is bound to governing by a transnational owner. This stage retains and sometimes rearticulates the values of former stages. It is characterized by new values of explicitly pronounced corporate culture, for example, by those of social responsibility.

Organizational structure: departments and the distribution of power: The first stage of the organizational structure is similar to a socialist enterprise and the slowly changing structure of departmental division. Here, the organizational structure is not integrated; the production department is seen as the most important part of the company. The second stage of the organizational structure is typified by a more differentiated departmental division where more power is assigned to controlling, marketing and, importantly, the sales department. In the third stage, the organization is continually restructured to adapt the production unit to transnational corporate standards. Stress is put on human resources, marketing, and logistics; the top leadership structure is broader than during the first and the second stage.

Types of personalities, typical employees: The first stage's employees are inherited from communism and may be considered incompetent (narrow-minded and unable to deal with changes or understand aspects of business other than their own department), including managers without authority and an unsophisticated workforce. The second stage brings radical changes in staff and results in the emergence of

new types of employees. Those unable or unwilling to comply with working standards are dismissed. The third stage is characterized by the emergence of a new international type of manager—the wandering manager—and by the spread of managers into the lower levels of organizational structure.

Products: The first stage's typical product is beer of inconsistent quality and taste. Its marketing is but a hobby for a few managers. In the second stage, a standardized quality beer occurs. With new quality standards, often due to technological investment, it becomes a problem how to ensure the original taste of the standardized quality product. The portfolio of products is enriched by beer specialties and rejuvenated local brands. As for the third stage of production and marketing, the local portfolio of products usually remains the same and is widened by the main international brands of the new owner. Additionally, the licensing of production of international and even local brands is introduced.

Breweries

All breweries in this study are middle-sized companies with a total annual volume of beer production of a few hundred thousand hectoliters. In the following table, we will compare six production units covered by the four case studies.

Embedded and Disembedded, Local and International

Analytically, we can discern two ways of employing the notions of locality and internationality by the respondents and authors of the case studies: embedded and disembedded.

The embedded locality has to do with reproduction of social relations in the local community, and in this respect locality is closely connected to the properties and boundaries of the physical loci (for example, a factory and the local community). The use of the embedded notion of locality can be shown, for example, in the stories about why a particular factory has been chosen as the subject of privatization. Also, on an organizational level, the policy of rejuvenating local brands, and particularly their connection with the local traditions of beer producing and the culture of beer consumption, can contribute to the development of an organizational identity, and of the identity of

Table 3.1. Breweries Compared

	OWNERSHIP	ECONOMIC CULTURE	ORGANIZATIONAL STRUCTURE	PERSONALITIES	PRODUCTS
Big Czech brewery	Third stage; full development in three stages	Third stage; full development in three stages	Transition from the second stage to the third	Second stage; wandering manager is absent	Third stage; specific kind of national market
Small Czech brewery	Mix of second and third stage (brewery owned by a regional competitor, the big brewery which is owned by a Transnational Company (TNC)); originally successfully privatized by a small number of local owners	Mix of second and third stage; the promoter of the change is the big Czech brewery	Transition from second to third stage	Second stage	Third stage
First Croatian brewery	Third stage; owned by the second brewery	Third stage; the second stage was not perceived as a success story	Third stage	Third stage	Third stage
Second Croatian brewery	Third stage; the third stage foreign owner was a minority owner in the second stage	Third stage	Third stage	Third stage	Third stage
Serbian brewery	Second stage; owned by a middle-sized TNC	Second stage	Second stage	Third stage	Third stage
Hungarian brewery	Second stage; privatized directly by a small-sized foreign company	Second stage	Second stage	Third stage	Mix of first and second stage; the small TNC is trying to keep pace with its larger competitors

the company's local branch as a strong player. In addition, the strength of the rejuvenated local brand can be employed as a means of developing various forms of local culture through local fairs, festivities, and other events. Embedded locality can function in the conceptualization of the factory as an extended family.

Embeddedness can refer to *internationality* as well. There are two basic ways in which "embedded internationality" is revealed in our cases. First and most important for our analysis: every international company has a local life and various ways of producing and representing its internationality. It is exactly through these practices that the local difference is invented and supported. This results in a kind of "local internationality," which can be recognized in internationalized procedures, a pride of working for a famous international company, and so on. Second, international behavior can be described as a feature of any foreign nationality and then evaluated within an arbitrary hierarchy.² Here, the notion of internationality is confused with notions of Western modernity that exclude alternative modernities, or at least they are devalued when compared with those of European origin.

Consequently, the concept of *disembedded internationality* can be connected with high mobility, non-places (Augé 1995), multilingualism and multiculturalism, a sense of global citizenship, and cosmopolitanism. In short, if in the case of embeddedness we were dealing with locality/internationality as a structure of (real) feelings, then, in the case of disembeddedness, we have to do with different evocations of locality/internationality, with different (and indeed more abstract) transpositions of the notions of the local/international. Our interviewees employed disembedded internationality in appreciating values of behavior, actions, or products as "international" like a self-explanatory label: something is good or bad, because it is "international." For example, the way of leading a marketing campaign, the product itself, or the taste of a beer could be perceived to be good or bad, depending on whether they are international or not.

Disembedded locality refers to those actions, strategies, and so on, which are not immediately connected with particular loci but nevertheless

² For instance, Germans were regarded by many respondents as "more international" or "truer international" than, say, Brazilians or expatriates. Hence, the local company privatized by a German or Belgian company is seen as internationalized to a greater degree than, for example, the one privatized by a company from Turkey whose modernity, and thus internationality, is in doubt.

intend to evoke closeness, familiarity, understanding, and comfort. For example, if in the case of one of the Czech breweries the idea of the *factory as a home* (or family) is shared among the workers, then we have an embedded notion of locality at work. If we however study the advertising for beer (as is the case of the Serbian brewery) in which the story is situated in the local pub, trying to evoke the atmosphere of home and friendliness, then we have a disembedded notion of locality at work.

International Business Culture in the Local Brewery

Corporate or business cultures are notions used in different ways and in different contexts. One can speak about explicit corporate culture presented on the web pages of transnational companies, and consider how it is built and employed, or we can use the concept in a strict analytical way with the help of the categories of values and attitudes. Respondents in our case studies often regard corporate cultures as management styles bound to the national origin of the manager or as corporate values that need not be the same as the explicit corporate values. They also understand *ownership* and *belonging* as international, foreign national, or local ownership and as emotional identification (or non-identification) with the owners. For instance, the values of “transparency” and “change” that appear in the Czech interviews do not occur on the list of the international owner. Some of the case studies talk about breweries as local “families.” We can read about managers who are “really international” because they have experience in doing business in different countries and, furthermore, about managers whose origin is “an international nation.” We also hear about “oriental” and “occidental” values and management styles and, in one of the Croatian cases, about the “exotic” management style of a foreign owner: “With these directors from America I kind of felt like we were Indians. They were, if you can understand what I mean, like characters from the Mexican soap operas,” said an interviewee.

Business encounters represent situations of contact in which internationality and locality face and penetrate each other. Internationality is often spelled out as an explicit company goal, part of the company culture, or its mission. Internationality is commonly contrasted with locality, which is closely identified with parochialism, and which can be substituted with a *new locality* understood as a product of interna-

tionality. This is best depicted in the narrative of change told by top managers: they are very well informed about company values, are able to reflect on them, and to connect them with their own identities. They usually understand internationality as a spirit of openness, possibilities for movement, networking, learning, and advancement. Thus, the international environment appears to be a guarantee for continual learning and improvement, as a top manager in one of the Croatian breweries said: “The fact that I can exchange experiences, that I can call a colleague in Bulgaria, Serbia, or Denmark and ask them to tell me how they solved that problem is very interesting.”

Internationality as a value often figures in the narratives of change in its disembedded version, it evokes openness, exchange, dynamism, unlimited horizons, and is in stark contrast to the negative notions of disembedded locality—most often associated with narrow mindedness, inertia, and parochialism. This notion of locality is mentioned by a top manager in a Croatian brewery, who recognizes that “a brewery has a lot of potential, and also a lot of local heritage, so that people’s mentality is very much local and not yet an internationally oriented mentality.”

We could also witness embedded aspects of internationality and locality at work, enabling international business entities to operate and succeed in places and social contexts as diverse as Africa, Asia, and Europe. International corporate cultures take on embedded qualities. This includes, for example, employing, like in one of the Croatian cases, people “for a really long period,” establishing firm ties with the local community through sponsorship of local events, investing in local development, sports, and art, and promoting local people in positions of middle managers, encouraging them to stay, develop new business policies, and guarantee long-term sustainability in business. In this respect, locality functions as an important value, one that will provide first local—and then regional—success to an international business player.

Notions of local and international are interconnected with a sense of belonging. The latter’s meaning changed after the international players had bought the local companies. This brought to the fore the duality of embedded/disembedded aspects of the employees’ working identities, and their identities in general. They came to realize that they simultaneously belong to the familiar working organization that has employed them (sometimes for dozens of years) and to a new,

much wider working environment (network) that they can barely comprehend. What they are confronted with, is the difficult task of negotiation between an embedded sense of belonging to the immediate surroundings of their local factory, to the observable, tangible, understandable space in which they perform everyday communication and interrelation, and the disembedded sense of belonging to a much wider community that the majority of them could grasp only virtually employing such abstract concepts as the *global family*.

With the privatization of enterprises and the internationalization of business practices, all the breweries were *de-familiarized*, which meant that a new employment policy was introduced, which relied on the professional expertise and business skills of the job-seekers, instead of their familiarity and connections with people already employed in the brewery. In some cases, such as in one of the Croatian breweries, the first owner introduced a rule that it is not desirable that more than one member of the same family works in the company. Foreign managers think this kind of local connectedness could harm a business, because people tend to conflate personal relations and emotions with doing business. They prefer impersonal relations at work, and attribute this kind of relationship to the way international business is conducted: "Well, it can be an advantage but also a disadvantage. If you have people from the same village or the same place, there can be a certain amount of jealousy and insinuation. But if you have an international team of people who are not dependent on each other, and have only a business goal in common, then I think it can be an advantage," contended a middle-level manager in Croatia.

With the internationalization of the firms, a *new sense of familiarity* began to grow. This time, employees started feeling as though they were part of an international, even global, family. For them, this means being connected with colleagues in other countries, communicating with them on a daily basis, having easy access to the company know-how, participating in seminars to gain professional knowledge, and meeting people from other breweries, in short, strengthening family ties within the international company.

Nevertheless, the desired goal for international companies is neither just a successful implementation of their rules, procedures, and business philosophy in the newly bought enterprises, nor just the strengthening of the feeling of an international spirit. The ideal way of transforming the newly bought enterprises, but also to contribute to the

development of the mother company as a whole, is to invest in young, capable local managers. After acquiring professional experience, and internalizing company culture and its values, these young managers are ready to become part of the winning team of the international “wandering managers” and contribute to the development of the company business throughout the world. This is, as top managers say, turning people into international (“real international”) players: “You mean they are going international? Yes, definitely. We are looking hard for a local talent, and after one has proven him/herself successful here in our brewery he/she goes abroad. We already started shifting employment abroad, for six weeks or two months. Several people already worked for that period in another company. Like in Poland or in Slovenia (...) We do believe in that sharing (...) But I hope that from our brewery we will have good international managers that can move anywhere globally. We always need good people,” said a Croatian manager.

Markets and Marketing Images

The beer market is usually divided into draught and bottled beer. While a typical advertisement of bottled beer employs images of special events in private life within the family, a draught beer advertisement uses the image of a local pub. We frequently see a similar difference in brand marketing. International brands are conceived of and marketed as brands for special occasions, while local brands are presented as brands for everyday consumption. Hungarian brewery owners advertised rejuvenated local brands as a special-occasion beer on a national level, but it was not entirely successful, because under communism, foreign beers in Hungary were conceived of as beers for special occasions. In one of our Croatian cases, we witnessed how a sizable national market share held by the company declined after its first privatization. It is now applying a typical regional marketing strategy based on a mix of international and local brands. What is interesting, at first glance, is that despite the evident attempts of the brewing companies to reach a national level via extending regional consumption, brands are communicated either as international or local. It appears, in most of our cases, that regional markets exist without regional brands. Before we try to understand this finding, we have to present a few facts about

national beer markets, their dynamics, and the position of our breweries in these markets.

All national markets in our case studies are of comparable size and recent history, characterized by slightly declining markets with increasing competition. Today, there are typically three or four big international players in each national market, which have a reasonable majority, and a number of smaller breweries. None of our companies are big players: they are strong in their own region without having a prominent share of the national market. Nevertheless, they are trying to gain a larger portion of the national market. Thus, they compete on both national and regional levels. The marketing strategies are relatively clear as far as strong images of nationalism are applied. However, a national position is not easy to achieve. Another way is to increase one's local or regional market share gradually and eventually to gain a larger national share.

Today, one can distinguish between two beer market types in Europe, in terms of their scope and historical affiliation. The first type could be called *beer country* or country of the German type. The structure of their beer markets is characterized by a number of small breweries. The second type is *country of the French type* with only few small breweries. As for our cases, despite a reasonable decline in the number of breweries, the Czech Republic still belongs to the first type, while Hungary, Serbia, and Croatia, each with a relatively small number of breweries, belong to the second type. Regarding this difference, we suppose that our Czech brewery is forced to compete not only with national and regional breweries, but also with some local breweries. How do disembedded and universal images, accompanied by financial strength and international know-how, compete with the embedded local image of small Czech-owned beer producers, that is, companies of the second stage of the ideal historical sequence? We also suppose that the marketing of images is more important today than the embedded local experience, practice, and taste of beer consumers.

The local aspect in marketing images is presented as a place of production with its history and tradition, or as a place of consumption. The place of consumption is often communicated with an image of disembedded locality. As was repeatedly stated by respondents from the Czech case study; brewing beer is a special kind of business, because both notions of locality—locus of production and locus of consumption—play a role in identification with the product. Companies are

therefore using images of disembodied locality in their endeavor to reach broader regional markets with their local beer brands.

To demonstrate the above statements, we decided to introduce two short analyses of recent TV beer commercials in Serbia and the Czech Republic. The first example illustrates the shift from an advertisement targeting the regional/national difference to an advertisement targeting the regional/international difference. The second works with the national/international difference using typical disembodied images of these two environments.

Shift from regional/national difference to a regional/international one

In the Czech case the strategy of TV advertising campaigns changed after the takeover of the local brewery by an international player. A separate marketing division was created and a new marketing manager, with work experience in an international company, was hired. Marketing strategy, brand marketing, and campaigns are today devised and communicated in cooperation with the headquarters' consultants, and marketing managers use the knowledge of the transnational company, accessible in the form of case studies on the company's intranet.

A few years ago, when the brewing company was owned by a smaller-sized foreign firm, advertising spots for the beer brand were built around Czech national legends (for example, how the first Czechs settled in the country). These spots reformulated national legends into caricatures using the local argot of the town district where the brewery is situated and were clearly enchanting the Czech people. The current international spot works with the disembodied notion of a typical locale framed within an international context. In this spot, two fishermen in their boat are fishing in a foggy night, when, suddenly, something big and heavy takes the bait and they see through the fog the recognizable silhouette of the Loch Ness monster approaching them. Of course, they row for their lives, then we discover that the monster was nothing else than a plastic swan set sail by young guys holding beer bottles of their preferred brand in their hands.

Working with the national/international difference

In the case of the Serbian brewery, locality is strongly implied in the marketing of the rejuvenated local brand, while the international brand is advertised with phantasmagoric images associated with an unlimited

and unrestricted world of possibility, and with spaces filled with fantasy and dreams (“Live up to your dreams”). If we compare the commercials for the rejuvenated local brand, produced after the takeover by a foreign company, we can see how the dominant narrative of the commercial has shifted from that directed towards nationalization of what used to be a local brand (“Our brand—the proper Serbian name for good beer”) to a recent one suggesting that drinking beer is a highly local, simple, friendly activity. In order to convey this message, the creators of the commercial exploited a public debate over *Serbian Big Brother*. Shortly after the show began airing, one of the inhabitants of the *Big Brother* house decided to leave the show because he was unable to get along with other rather superficial and frivolous inhabitants. On leaving the house, he gained enormous popularity and was praised by the public for his openness, directness, and unpretentiousness. Miki, a carpenter from a small village in Vojvodina, only has an elementary school education but turned out to be surprisingly knowledgeable of contemporary literature, film, and rock music. Overnight, he captured the imagination of the Serbian public who virtually declared him a national hero, an ordinary man who resisted the temptation of “Western materialism” and saved the most precious thing: personal freedom and dignity. The brewing company reacted promptly, and soon an advertisement with Miki in the leading role appeared. The plot of the advert takes place in a luxury restaurant (disembedded internationality) where Miki and his friends celebrate an important event. The scene of ordering a meal and drink is a moment when local and international values and lifestyles clash, for the waiter recommends “Chardonnay from 1872” and delicacies, indicating their quality and rarity by the place of origin and time of production. For the spectator of the advert it is obvious that this international flavor does not match the taste of the ordinary company. They impatiently wait until the waiter finishes reciting the offer and then Miki proudly spells out his (common taste) order: “Pork ribs and three glasses of our favorite beer brand from 1722.” Next we see the company sitting in an ordinary pub (disembedded locality) surrounded by a band, and other people drinking beer, toasting, and being obviously relaxed. The commercial openly uses the public popularity of a new celebrity and exploits his opposition to an international media product and the values it projects (individualism, materialism, obedience to rules, restriction of movement, and everyday exposure to the public), connecting the public valuation of his common sense and self-proclaimed locality to a local beer brand.

Conclusions

In all of the breweries compared, we faced a combination of international structures and standards with local values, habits, and historical experience. On an organizational level, we saw a process of localization, whereby international actors set down their business policies in local neighborhoods, local contexts, and among local customers. This makes issues of locality important for marketing strategies that rely on tradition, local history and mythology, and such concepts as “local pride,” appreciation of local knowledge, and inventing local traditions. International companies make themselves viable through their ability to connect with the “local” without transforming (homogenizing) or negating it.

Although the dichotomy of local/international was used as the comparative analytical frame for this study, a closer investigation of the four cases revealed the importance of a *trichotomous conceptual frame of local/regional/international*. The notions of neither the local, the regional, nor the international can be represented in any simple sense, as fixed entities that are contrasted in dichotomies such as national interest versus foreign interest, old ways versus new ways, and as particularity of the local versus universality of the international.

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Reason, Charisma, and the Legacy of the Past

Czechs and Italians in Živnostenská Bank

Irena Kašparová¹

Introduction

Characteristics of the field and data

Živnostenská Bank has traditionally been a Czech bank—a kind of national *family jewel*. Yet, it was the first bank in the Czech Republic to be taken over by foreign capital and has subsequently changed owners twice within two years. It is currently owned by UniCredito Italiano (UCI).

When conducting the case study in Živnostenská, two major sources of information were used: written information—mainly the online sources generally available to the public (websites, newsletters, promotional leaflets, and annual reports)—that became the backbone for the bank's history and later proved vital to the researchers while interviewing the bank's management.

We interviewed both the Italian and Czech management and employees. Ten interviews were conducted with three Italian top managers working in the Prague headquarters, three Czech top managers, also working in the Prague headquarters, and four lower-level managers and employees who work in the bank's Brno branch. The Italian mother company does not employ its nationals in lower positions of Živnostenská, thus the Czech interviewees are overrepresented in the sample.

Živnostenská was the first foreign work experience for the majority of its Italian managers. Before coming to the Czech Republic, they had mostly worked in the New Europe division of their bank. They were all men over 40 years of age, working for the mother company for more than 15 years.

These facts were in slight contrast to the characteristics of the Czech management, which was younger (all below 40 years of age)

¹ With the kind cooperation of Lenka Štěpánová.

and had worked for the bank for a shorter period of time (nine years maximum). Moreover, their ascension to their current positions was much less complicated than that of their Italian colleagues. The lower-level employees had been with the bank only briefly (for two years on average).

The interviews were conducted in a very cordial atmosphere. The Italian managers were very well-prepared and open. The Czech managers were less so. This could be due to the fact that the Italians were in the dominant position. They did not fear for their jobs, since in many cases they are the jobs, and they personally authorized the DIOSCURI interviews which they believed would enhance the work of the bank. The Czech employees (especially those at the lower level), were in a subordinate position. They were told to participate in DIOSCURI—the order came top-down. In many cases, it was unclear to them what the project was about—it had to be explained repeatedly—and some held back information for fear of it being used against them.

During the interviews, the respondents were asked a single question to start—namely about their encounters with the Italian colleagues after the merger. Many answers were formulated by using pronouns such as *us* and *them* when referring to persons of another nationality. For example: “We can hardly understand you... You’re kind of focused on procedures.”

Interestingly, neither were the researchers exempt from these binary opposition games that were played by both the Italians and the Czechs: we also became *us* or *them* depending on the context. It is clear that many prejudices, expectations, and presumptions about differences in culture and, more specifically, work culture, exist in Živnostenská on both sides. These differences closely follow the nationality line, leaving aside other factors and attributes such as education, experience, and age.

The structure of the paper

This paper may be read in several ways. First of all, it allows the reader to follow a clear path of ordered descriptive information, introducing concrete steps and acts of behavior of a particular Italian bank in the Czech market. The somewhat technical language of the third section copies the language used by the interviewees, commenting upon such issues as managerial tactics, different styles of selling the bank’s products, organization, or risk taking.

A second possible reading allows for an analysis of recurrent themes and topics that penetrate most areas of interaction between the Czechs and Italians. Often unconsciously, the interviewees speak about differences in communication, temper, values, or shared responsibilities. In this case, the stress is much more on the cultural capital of both groups, which is nevertheless tightly connected to the given power-relations and business performance of the bank. It is here that I would propose to concentrate on such issues as power and subordination, verbal and non-verbal communication, and the importance of language and national character of the actors as a group.

Finally, the case study contributes some general thoughts to the debate about “national character” and the sense this creates in the global economy.

Živnostenská—A Mirror of Czech History

Živnostenská was established in 1868 as a joint stock company focusing on the financing of newly established small- and medium-sized Czech companies. It was the first bank in the Austro-Hungarian Empire to have only Czech capital as the foundation of its operations. After the first two decades of its existence, Živnostenská became the largest Czech bank. Though it was much smaller than the Austrian banks, it played an important role as a provincial institution.

The development of the Czech banking system was linked to the process of national emancipation. From the end of the nineteenth century, Živnostenská had been increasing its capital and went on to become the primary lender to Czech industry. By 1918, Živnostenská's capital represented 30 percent of the total capital of all Czech banks. After the formation of the Czechoslovak Republic in 1918, Živnostenská grew dynamically as the new state's key bank and became a financial colossus whose influence was felt in all sectors of the economy. In the 1920s and 1930s, Živnostenská supported mergers of large Czech industrial corporations and systematically built up its industrial empire. As a result of this decision, Živnostenská became an institution that had experience with and success within financial markets, both in serving small clients and individuals, as well as acting as a partner to large enterprises. As the strongest bank in prewar Czechoslovakia, Živnostenská controlled 60 companies (counting the largest

among them) and influenced many other corporations. It also developed links with French and British financial institutions.

Under German occupation, Živnostenská tried, more or less successfully, to protect the interests of Czech industry. In 1945, like other Czech banks, Živnostenská was nationalized. Between 1950 and 1956, though the bank continued to exist as a legal entity, restrictions were imposed on its activities. It experienced a revival thanks to its expertise in international dealings and foreign currency transactions, which, during the period from 1956 to 1988, made it the primary Czechoslovak bank in import and export business, with its London branch playing a significant role. Živnostenská was the natural choice during this period for all foreign currency accounts maintained by expatriates, foreign firms operating in Czechoslovakia, and state agencies facilitating *invisible trade* such as tourism. This influx of foreign currency once again enhanced its operation as the *chosen* or the *privileged* bank, both regarding its status as well as its clients, since during the communist era it was foreign currencies, especially the German mark and the American dollar, that were the symbols of financial stability and security in the eyes of the population.

Despite—or because of these facts—Živnostenská was one of the first banks in Central and Eastern Europe to be privatized with the help of foreign capital. This happened during the Czechoslovak privatization program in 1992, when the German BHF-BANK acquired a 40 percent stake in Živnostenská. The International Finance Corporation (IFC), a member of the World Bank Group, acquired 12 percent and the remaining 48 percent was purchased by private individuals and Czech investment funds. In January 1998, Bankgesellschaft Berlin AG became the largest shareholder of Živnostenská after taking over BHF-BANK's 47 percent stake in Živnostenská's equity capital, which was increased to 85.16 percent in 2000. Two years later, in 2002, Bankgesellschaft Berlin AG sold its stake in Živnostenská to UniCredito Italiano S.p.A. (UCI).

The current situation in Živnostenská

The major discomfort the Czech side articulates about the merger is the lack of information from the Italian mother company. Inadequate information, or as the employees perceive it, the “information vacuum,” leads to the creation of parallel channels of information created by the employees in the bank. The official information, available on

the bank's intranet, is often supplemented by unofficial information, obtained through personal contacts with the top managers and other bank officials. Dissemination of unofficial information is a direct consequence of the *assumed* insufficiency of the official information and it creates confusion within the bank.

This dual mode of communication within the bank had been identified by the management before our project started. During our research an official integration phase was beginning. This phase consisted of creating integrated groups within the bank that worked together on the evaluation of individual tasks like product comparison, the cash-dispenser network, or quality management. However, none of these activities were seen by the Czech employees as contributing to the improvement of communication.

It became clear for us that communication within the bank was going to be one of the key issues. In other words: the mode, style, language, method, or even the lack of communication regarding the differences between the two cultures working together and/or alongside each other proved significant themes of the project.

The UniCredito Italiano Takeover of Živnostenská Bank

Expectations

A change of ownership was not a new experience for either of the parties involved in this merger. The majority of Živnostenská's shares had been owned by Germans since 2000. UCI also had gone through a very intense process of change, and its management cites the bank's experience of both taking over as well as having been taken over by other banks.

"We have experienced a similar situation to yours several times," said an Italian manager, "UCI was a small bank—number six in the Italian market. After the privatization of the bank in 1994, the bank began to structuralize more... the bank was divided into three segments and gradually extended into new banks. We first expanded in 1998–99, when we bought a group of banks in Poland."

Thus, both sides had previous experience with which to compare their situation, yet both were in for a surprise. The interviews revealed the fact that neither bank knew well what the other bank was like and each bank had, to put it mildly, a very different idea about the new situation.

“The first thing that surprised us,” noted one of our Italian respondents, “was that Živnostenská was a totally different bank, an institution oriented in the market in a manner other than what we were accustomed to. While UCI focuses on corporate and retail banking, upper mass market, Živnostenská belonged to [the group of] small private banks with very good clients, a corporate segment, and suffering retail.

The responses on the Czech side reveal a mixture of feelings full of national stereotypes on the one hand, and full of hope for a change for better in business performance and future orientation of the bank on the other:

“An ‘Italian’ or ‘an Italian manager’ means chaos... mafia... even in connection with this bank.” Or: “The previous owners, Germans, didn’t take care of the bank as we expected. Many of us... believed the Italians would take greater care of the bank and believed in a new wave of business.”

The legal changes were less dramatic than initially expected. The entrance of the Italian owner was divided into three phases: (a) preparation for an expansion into the Czech market; (b) implementation of the standard UCI business model demonstrated by the adjustment of individual procedures, organizational structure, and the decision model; and (c) expansion into the Central and Eastern Europe market as a whole. The initial activities of the new owner were seen by the Czech employees as not overly aggressive. However, this mild strategy was not necessarily regarded by the Czechs as positive but rather as a result of total ignorance by the new owner of the Czech banking market:

“It was known that the Italians wanted to settle in the Czech market and, after an unsuccessful acquisition of Komerční banka, Živnostenská was practically the only remaining bank in the market. This may have been the reason for a surprise on the Italian side, when they found out what kind of a bank they had actually taken over. That may be the reason why the analysis of the overall situation of Živnostenská could take much longer than expected, and also why the first significant changes began to take place only after some time following the purchase,” reported a Czech employee.

The slow development in Živnostenská was thus perceived as a consequence of UCI’s spontaneous and somewhat unpredictable behavior in the Czech market. Although both sides had previous experience with

takeovers, their expectations were fairly different. While the Italian mother company felt somewhat taken by surprise, they were still proceeding with changes at a speed that did not seem in any way abnormal to them. The Czech side, on the contrary, expected much quicker changes. Due to the stagnation of the bank under German ownership, they were looking forward to any sort of improvement. When this did not occur and there was a lack of official information, practical problems emerged:

Some employees told their relatives to place their money somewhere else... not that anyone said it directly—I was then working at the call center—not there, no one would dare, but when they met clients, they sometimes advised them to do so. I think clients weren't extremely impressed by that.

The interviews, however, revealed that UCI's investment in Živnostenská was not purely speculative and that there was an initial desire to succeed and develop within the Czech banking market. Delays in action were, therefore, intentional. The differences in corporate culture resulted in the hiring of a specialist with local/national knowledge:

We didn't know very much about the [Czech] people... there was no strong managerial team... and we were waiting for Mr. X to come.² There was no Human Resources manager, the working moral was very specific, and people were leaving 10 minutes before the official end of their work day... there were very young managers... well educated... they had already had the opportunity to study abroad... they were mostly under forty.

Managerial Tactics

Although the *local knowledge specialist*, Mr. X played a decisive role in the beginning, the new owner did not leave *everything* up to him. Italian managers explained the tactics and role of the mother company when entering a new market in the following way:

² After Mr. X had come back from his practice in London, prior to 1989, he briefly returned to Živnostenská and later moved to Slovakia where UCI had its representation at that time. Following the request of the Italians, he came to Prague. It is speculated that should the UCI have had only a short-term interest in Živnostenská, the services of Mr. X would not have been required. In many senses, he also played the role of middleman between the Italian management and the Czechs, functioning as a “bridge,” assumed to know both Czech culture and circumstances as well as the Italian style of management.

The goal of UCI does not include the placement of its people in the *top* management of the company in the banks of new Europe. The policy is that the Italian managers are established in specific positions so that they may cover the most significant gaps, whether on personal or professional levels.

The new owner focused at first on building up the managerial team, which would then help him navigate through the process of change. Very soon, a major difference between UCI's managerial expectations and Živnostenská's usual model arose. This was a direct consequence of the actors' different ages and types of work experience:

Their [the Czech managers'] problem was that they skipped the period when they should have been working operatively... learning how to implement things... They were good at theory but they weren't able to put new things into practice... that was especially demonstrated in retail, which was controlled as a private segment.

From this perspective, there is a justified expectation by the new owner that a manager must be able not only to draw on knowledge and education but also on experience—namely, following intuition and inserting part of his/her own *life experience* into the decision-making process. These decisions are usually not supported by long-term analyses; there is no time to lose.

According to an Italian manager:

Italians underwent several years of conditioning... that taught them that if they have a problem, then they must search for solutions. The needs of the client are the decisive force... What we have to do is obvious and we don't need any analysis for that... Especially we must anticipate future development... In this case, the sensitivity of managers is very important.

The Czech management saw it somewhat differently:

The managerial style of the Italians is strongly individual. From my point of view, the model of people from Italy, if there is any, is to lean on experience from the mother company in complicated matters. The level of managerial skills as such is—from my point of view—at a low level.

A major difference appeared in the realm of mutual expectations. Czechs are too analytical, Italians too spontaneous. Czechs are seen as preferring to talk about problems rather than solving them, while Italians solve the problems even when this means changing the final goal. For each side, the work of the other discredits its own. From the Czech point of view, analysis of the situation is of no use once the goal has been changed. And conversely,

Czechs are especially focused on processes. They are very analytical, very pragmatic, well organized, and well structured, but they often have problems in really focusing on the goal. They are good at situation analysis, but analyses don't solve problems... and they are not focused on decision-making.

The message of the Italian managers to the Czechs is clear: Take action! Make decisions! The main differences between the two cultures are recognized and articulated by the Italians. They are in the position to direct, to manage, and set the rules. They recognize the differences but do not take them into consideration in the management strategy. Rather, they expect the Czechs to change.

Completely new to Živnostenská's business culture was the introduction of *informality of internal relations*. Italian managers express their interest not only in business performance, but also in the personal matters of their Czech colleagues. This quest for a friendly working environment is achieved through *small talk* and long lunch hours, during which personal matters are discussed alongside business.

Good employee relations are important in Italy. The informal approach enables quicker changes. In the Czech Republic, these relations aren't important; I'm hugely surprised that you're able to work with people who hate each other... That would not be possible in Italy. We need good personal relations, and if we fail to get them, we have a problem... especially in a situation when we need to perform quick changes. The Czech Republic is colder, though.

The aim of such behavior is to build a capital of trust between the parties, which could be utilized in everyday as well as in business life. It is a kind of social capital that can be valued more by certain business cultures than the best-written agreements and deals.

Have a look at the general picture and tell me what's really important. Forget what's unimportant. In Italy we close some deals only by verbal communication, then we prepare the second step, the verbal agreements are stronger... Here if you haven't agreed upon all issues, you go step by step, through a huge number of stages. If your customer asks, you answer, you can't go through the entire bank and search for the answer, you don't have time.

At the same time, trust based purely on oral agreement is not traditionally part of Czech business culture. Be it due to the Austro-Hungarian or communist bureaucratic legacies, or the post-communist *wild*³ monetary developments, a popular saying that still very much governs all the transactions in the Czech Republic translates as "what is written is also given" (*co je psáno, to je dáno*). Czechs look with great suspicion upon those business cultures that function without written documents that may be consulted at any time in the future for whatever reason necessary. The interviews illustrate this discrepancy: "Italians are smiling but in reality they don't know anything about our mentality. They push us to do everything according to their expectations, but on the other side they expect our Czech creativity."

Organizational structure

Živnostenská has a clear hierarchical structure. The Supervisory Board and Board of Directors are in charge of the bank. At the time of our field work, in both bodies, the Czechs represented a 2:1 majority. Each position in the bank is provided with a job description. The descriptions are part of the so-called individual development plan system, containing mutual connections of individual working positions, and indicating the possible penetrability of individual positions and career growth. Competency evaluation also conforms to the job descriptions. They serve as a *safety net*, especially for the employees, since it contains their duties and rights and, as such, specifies their additional workload, working hours, overtime expectations, and so on. Nevertheless, every job description includes a passage that is *open to interpretation*, wherein the loyalties and additional duties of the employees are enumerated. It is this ambiguous passage that provides the management room for maneuvering while leaving the employees' status uncertain.

From the beginning I didn't like the fact... that they [the Italians] destroyed everything and didn't have any idea what it would look like.

All processes and structures were affected and little was known about the form and contour they would actually have. I think people [the Czechs] took it very badly.

For the Italian owner, however, the original organizational structure of the bank was not something to be left intact:

Each segment, each department, or division in the bank worked as separate unique banks. There was no human resources management, the procedures were significantly different from the Italian ones, segments did not speak with each other, and one could hardly speak of any cooperation... Everything was different.... The characteristic behavior of employees was to make rare, accumulative, and exclusively responsible persons.

“After the merger,” said a Czech employee, “there was a downsizing process... Today if somebody is ill we are not able to cover his work activities. We sometimes work overtime because other people are dependent on us.” The foreign managers have succeeded in motivating, persuading, or forcing people to work in a different style, which seems to be more productive, but that does not necessarily mean that the employees have accepted these changes internally, nor have they decided to stay with the bank. “Employees... there are few of them who don’t have any conflicts with the Italians... the ones who have left or are leaving. Some of them are delaying their departures. They’re waiting to see what effect the merger will have. There’s surely a smaller number of them than those who don’t get into conflicts.”

Rules, risks, and responsibilities

The major conflicts that occurred between the new owner and the Czech employees mostly concern the nature or absence of rules and responsibilities in the bank. “Do the rules allow this? Make sure, write it down, and have it signed, so if something goes wrong, you have a scapegoat to point to.” This negotiation style of the Czech employees with both personnel and customers was much criticized by the Italian managers. In their view, it slows down the process and creates problems, because it is not the customer’s interest that has been prioritized. Such a system is seen as rigid and not customer-oriented. Risk and responsibility are lacking in this behavior; rules govern everything else.

Rules and individual responsibility are seen by the Italian management as interdependent issues. The rules are there to be followed (and to be broken, many would say), and at the same time to direct the responsibility away from the individual. If something goes wrong, it is a problem of an ill-advised rule, not of the individual. Personal responsibility is absorbed by the anonymous rule. This has been recognized by the Italian management as a rigid factor and drawback on the Czech side. Such an attitude does not work when a crisis or a problem needs urgent resolution.

In Italy—we have rules too—because this is the base of every organization. Starting with cashiers and ending with the person responsible for the branch. Each of these takes responsibility every day... one cashier here refused to pay one customer twenty thousand crowns because this customer only had an identity card, while when opening the account he used a passport... I understand the rules—but there is a customer in front of you. In this case the answer could be, “Please, I can’t pay you, give me five minutes and I will try to solve your problem.” I’m sure that the customer would be happy.

Getting rid of this rigidity is seen by the Italian management as a target not only on the level of work skills but also on that of intercultural communications. To a great extent, the Czechs are trying to resist it, although they recognize its positive effect upon the performance of the bank in the market. “With respect to market development,” said an Italian manager, “in the Czech Republic, we needed to create a flexible bank without necessary decision-making levels to be able, as quickly as possible, to respond to market needs.” The Czech employees seemed to agree with him: “At the beginning it was very tough for our people. As they were not used to walking alone, they were not able to do that... It is true that they [the Italian owner] helped that business a lot.” And: “After all, there is something to their less democratic managing style. To make people interested in their business results... they have changed people’s attitude to work... they have begun to push them and the results have gradually been coming.”

“So what’s the problem—the rules or the people?” an Italian interviewee asked: “How could we solve this situation? Answer: If you don’t like this rule—change the rule—this can be done... In the meantime—if you’re a manager—you have to take some responsibility; and I am

not sure if the managers are ready to take it... They must be able to identify important situations and take responsibility for negotiations. Generally, this is a managerial skill. And now the question is: Is it a problem of individuals or a problem of the culture?

Culture and Power in Živnostenská

National character and power relations within Živnostenská

The reader may have noticed that one major binary opposition runs through the whole case study: difference along national lines. The way that it is interpreted by the two parties is rather unexpected. The Italians see the difference stemming from different cultures and socialization, with a possibility to change. The Czechs think the same way but feel forced to change in order to keep their positions within the bank. As one Italian manager put it: “Czechs have a German approach, which is: Tell me where to go and how, and I will go there. However, what’s expected is that one will begin to search for solutions... it’s not the existence of the problem that is significant, but the solution.”

This difference along national lines is not perceived by either side as something inherent, genetic, or intrinsic. It is, rather, understood by them as part of power relations within the bank. Positive and increasing economic results of the bank empower the Italian managers to implement their views rather forcefully. A Czech manager summarized it in the following way:

When they bought us, they changed a lot of things for the better. The figures are there and demonstrate it. It is, however, difficult to say if they did that because they understood the culture and knew how to cope with it, or they didn’t know it, didn’t want to understand it, and just did it their own way. I have a feeling that we don’t want to understand differences much, why it’s like that and not another way, what could make it easier... on both sides. Probably it would be of help if they understood what encourages a Czech. They never wanted to understand this.

An Italian manager commented on a similar subject in the following way:

I began to push my people to start making decisions, not to waste time with long discussions... and there were many complaints against me... but now, after 19 months, I think that this corporate culture in retail has changed and the people are more flexible and, especially in

retail, we are speaking in a totally different language... Czechs are, however, a bit different nowadays: we have spread like a virus. Czechs today—at meetings—already behave in a similar way to the Italians.

Style of communication

One major difference that penetrates the behavior of all involved is in the style of communication, once again firmly rooted in the discourse of national differences and power relations within the bank. The Czechs are characterized by the Italian “other” as those demanding reason, structure, and rules; Italians are seen by their Czech counterparts as those yielding to charisma, emotions, and individualism: “There’s always something said and then you just wait for half a year until it’s revised by the Italians once again.”

Another Czech employee said:

They mostly don’t understand why and what you need some information for. If you want to push something through, then you bear responsibility, everyone looks at the other ones... I’m responsible only for field A, you only for field B, but unfortunately you can’t do anything unless you have information about field B, so your requests wander all around, and a big problem with Italians is that they ask why we need this. Why’s your country so organized, why do you actually need it? They just simply don’t get it.

What the Czech management criticizes is the lack of respect for local practice. The mode of communication is different, and dependence on individuals is seen as an obstacle, since the Italians change their minds and the rules much too often for the Czech management to be able to work effectively; they do not see any development strategy for the bank. It all results in “chaos” which, for most, is a synonym for the absence of strategy. However, the extent to which communication bypasses the two sides, is expressed somewhat differently by the Italians, who, unlike the Czechs, do not see their actions as representative of a missing strategy. For them this seeming “chaos” *is* the strategy: “There is a strategy... only tactics are missing.”

The differing styles of communication occur on all levels of corporate behavior: decision-making, willingness to take risks, in/dependence, ir/responsibility, business culture (written vs. oral agreements), and personal communication among employees. The Czechs prefer and demand analytical rule-following and a formal mode of communica-

tion; as opposed to the informal, spontaneous, and charismatic side of the Italians.

A Czech manager described the initial situation:

The main thing that struck me was the fact that the communication was immensely fragmented, absolutely uncoordinated between individuals, and there was a monstrous mess, there's mess everywhere, in all mergers there's a mess, but there was a big one in this merger. The integration effort is totally uncoordinated; we don't have any model of how to inform; a basic, at least theoretical model of how to inform is lacking. The management says one thing and the rest has different information and then there is a screw-up... You overcome the fact that you don't know everything, what you don't overcome is the fact that you don't know the main guidelines.... Sure, when someone else comes, there is a certain change, but I didn't see what the long-term goal was and if any goal has been presented, then it has changed a lot. Once again, without any communication, a continuous change for three years."

In the initial phase, the arrival of the Italian owner brought only minimal communication and increased discomfort—not only is this the feeling of the Czech management but it is also acknowledged by the Italian owner: "Speaking about Živnostenská, we made a lot of mistakes inside the bank, but it is not true that we did nothing in the beginning, especially in the first year when we did the most things... lack of communication could lead to the confusion among the employees."

The fact that we have been thus far analyzing communication within the bank without addressing the actual language of communication deprives us from useful arguments. In Živnostenská managers speak English, and the language follows very much the same pattern as communication in general. English is not the native language of either party, and thus gives both sides an equal starting position. It is, therefore, very interesting to see what the two sides make of the English communication code. Italians in the bank have a reputation of being poor English speakers: "When I came here, I wasn't able to communicate in English. I'd begun studying the language shortly before I came.... My arrival at the bank was without problems due to the tolerance of the Czech people."

This shows that at least one of the four Italian managers was unable to communicate with his Czech counterparts at the beginning of his job in the bank, though he did not view this as a problem. This was, however, not a view shared by his Czech colleagues: “Moreover, I have a feeling that whenever an Italian comes, everyone knows he’s going to spend at least two hours at the meeting... he stops at some detail, and what’s more, he cannot speak English properly... it is always like that,” remarked one of the Czech employees.

Although some Italians within the bank cannot speak English very well, they do not consider it a problem, since under their managerial logic it is the action that counts more than analysis and words. Czechs, however, see this as a problem, because words are important for them. Because they are unfamiliar with Italian business culture, words are the only steady point in the communication on which they can rely. Otherwise, how might one be sure that what is really meant is also what was articulated and understood as such? This difficulty was recognized by both sides and each party resolves the problem in their own manner. The Czech management prefers to have the key agreements written down rather than agreed upon only by word-of-mouth.

Conclusions: Legacy of the Past or Unequal Power Relations within the Bank?

Živnostenská Bank is imbued with two seemingly incompatible worlds. The Czechs demand from their Italian employers precise rules of conduct, since these are seen as both guidance and limits to one’s responsibilities. They fear independent decision-making since this leaves too much space for the interpretation of individual action and subsequent evaluation. Italians understand “individualism” and “chaos” not only as a cultural sign but also as a business strategy, in which detail does not matter much, and yet the individual (customer) is more important than the structure itself. Can this merger work in the future? Italian managers believe it can: “The combination of both cultures is good if people are able to accept variety. It can help growth. I think that, when one takes the relaxed Italian attitude of solving problems, and adds to this the responsible Czech attitude and stance on firm foundations, they are definitely compatible, but only with mutual respect for basic features of each of these cultures. And they want to succeed in the Czech market with the Czech customer.”

Although the social sciences have long ago closed the door on studies aimed at discovering the “national character,”⁴ it is obvious from the interviews that popular discourse still spins around stereotypes. “Italians are chaotic, charismatic, and spontaneous. Czechs are ordered, rule-following, adaptable.” Combined with unequal power relations, oppositions are bound to occur: *us* and *them*, a simple dichotomy. Real life often has little to do with academic social science, and this case study is not trying to pretend that the differences between *us* and *them* do not exist in Živnostenská. Quite on the contrary, they do exist and they are very pronounced. It is encouraging that these differences are not seen as physically inherent, but rather as culturally determined. What is more, these differences were never pronounced as a form of cultural pathology—a new form of cross-national racism but rather as differences that can be mutually respected.

The issue of coexistence of the two cultures in Živnostenská depends on the future development and position of the bank in the wide multicultural environment of the international banking sector. The market performance of the bank will either bless or condemn the merger in the future. If the merger is to be a success, local knowledge must by necessity be incorporated in the bank’s decisions. It is widely acknowledged that cooperation—on both sides—is possible only under the conditions of mutual respect and tolerance towards differences. It is obvious that learning about each other takes time. The cultural and linguistic differences are deeply rooted in the minds and bodies of all actors on the scene. The game, however, is uneven since it is the Italian management that holds a greater part of power. Nevertheless, it is also recognized by the bank’s headquarters that they aim to succeed in the Czech market and, thus, to a great extent, it must be their strategy to “go native” in the Czech environment. Thus, getting to know the world of the “other” and increasing one’s assets in the field of the “others” cultural capital is clearly the key to successful coexistence and to the prosperity of Živnostenská (Bourdieu 1994/98). The willingness is already there. Only the passage of time will show whether this is enough.

⁴ Compare to Benedict (1967).

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Managers as “Cultural Drivers”

Raiffeisen Bank in Croatia

Drago Čengić

Introduction: Entrepreneurship and Culture

Our *starting hypothesis* begins with the assumption that Raiffeisen Bank Austria's (RBA) position in Croatia was largely determined by opportunities in the Croatian market, opportunities that had been recognized by the Austrian bank's owners in the early 1990s. Therefore, cultural encounters resulting from the establishment of RBA in Zagreb also depend on the policy of market penetration that RBA (as the first foreign bank in Croatia) used to embed itself as an integral part of the Croatian banking system.

Contrary to the dominant approaches to entrepreneurship as an economic function, a market innovation, or as individual traits the entrepreneurs share in their economic activities, we have used here the *concept of entrepreneurship* developed by Stevenson, Roberts, and Grousbeck (1994). According to their definition:

Entrepreneurship is an approach to management that we define as follows: the pursuit of opportunity without regard to resources currently controlled. This summary description of entrepreneurial behavior can be further refined by examining six critical dimensions of business practice. These six dimensions are the following: strategic orientation, the commitment to opportunity, the resource commitment process, the concept of control over resources, the concept of management, and compensation policy (Stevenson, Roberts and Grousbeck 1994, 5).

With regard to the definition of *concepts of culture and organization*, various literature sources were consulted (Morgan 1996; Hofstede 2001; Handel 2003), and we ultimately defined culture as a set of shared beliefs, values, and norms developed and maintained in real organizational settings. Consequently, organization is imagined as a specific group of individuals and their respective roles, established to perform some social, economic, or political goal. We did not want to suggest to our respondents any of these definitions as the “right

one”—something they have to accept. Instead, we wanted to glean their genuine understanding of culture and organization, no matter how (il)logical, (ir)rational, or biased they might be.

As we discovered in early 2006, there were few foreign persons among the top and middle managers in the bank (only one senior manager from Austria worked there in 2005). Therefore, we could not study the cultural encounters by comparing the opinions of individuals coming from different “national cultures” and working together in Croatia. Instead, assuming that culture also belongs to the “embedded” elements of overall business behavior and organizational structure, our project focused on identifying: (1) the main motives of establishing RBA Zagreb in the middle of the 1990s; (2) the main features of “Western/Austrian” and “Croatian” models of running the banking business in the middle of the 1990s; (3) the key institutional and human factors which contributed to the introduction of new business practices and procedures in the 1990s and today; (4) the key drivers of mutual learning and exchange of knowledge/experiences between Raiffeisen Zentralbank Österreich AG (RZB)¹ in Vienna and RBA Zagreb, as well as the critical aspects of the current organizational culture with regard to its main clients and new market challenges, and (5) the main traits of the current organizational culture of RBA Zagreb.

Our research asks whether it represents some version of “Western” business/organizational culture, some version of a larger “RBA corporate culture” (mainly produced in Austria), or do we witness a combination of these cultures with the local “Croatian management style”?

Due to the bank’s policy, we were only allowed to interview the top and senior managers working in Zagreb (see Table 5.1). Fieldwork was conducted in 2005 and 2006. Altogether 15 in-depth interviews were made.

Table 5.1. Some Data about the Managers Interviewed (N=15)

1. Gender: 8 men, 7 women
2. Average age: 43 (31–40: 6; 41–50: 6; 51–60: 3)
3. Foreign managers or returnees: How long have they worked in Croatia? 1) one foreigner (Austrian): 45 years; 2) one returnee (Croat): 7 years
4. Number of employees within the bank: 1,560
5. Average number of years within the bank: 8.25
6. Average number of years in their present position within the bank: 6.4
7. Education levels: secondary school: 1; university education: 9; M.A. or MBA: 5
8. Number of people in charge: 1) 1–10: 7; 2) 11–50: 4; 3) 51–100: 2; 4) 101 and over: 2; Average = 80.9; range: 1–600
9. How many bosses do they have above themselves? 1) no boss: 1; 2) one boss: 7; 3) two bosses: 5; 4) three bosses: 1; 5) four bosses: 1
10. The country they came from (for foreigners or returnees): 1) Austria: 2 persons
11. Foreign languages used in official communication: 1) English: 13; 2) German: 3; 3) Italian: 1
12. Number of foreign managers working here: 1 (among middle-level managers)
13. Hierarchical positions (headquarters in Zagreb): 1) top managers: 4; 2) senior managers: 8; 3) middle managers: 3

RBA's Business Strategy and the Establishment of RBA Zagreb

What was the logic behind the establishment of the first foreign bank in Croatia during the Yugoslav war, when Croatia was engaged in a violent territorial dispute over its borders? Why did no other foreign bank enter the Croatian market in the middle of the 1990s? The initial RBA activities in Zagreb were profoundly linked with some important strategic decisions made a few years earlier in Vienna. They were related to two important issues: (a) the question of the development of the RZB network; (b) the market opportunities Western European businessmen saw in post-communist emerging markets. The main author of those

strategic moves was RZB's leading manager and strategist Herbert Stepic.

The strategy designed for the Eastern European markets had already been prepared by the end of the 1980s. It was based on the simple idea: *Be the first and grow before the others come.*

Since starting the expansion in what has developed into the RZB Group's home market of Central and Eastern Europe, RZB—and in tune with it Raiffeisen International—has pursued a consistent and clear strategy: enter new markets early and ahead of competition and then expand locally, in line with business growth and customer demand. Thereby, healthy organic growth was achieved both regionally and locally at manageable risk, without overstretching available capital, manpower, and organizational structure...²

Looking back, it seems that in the middle of the 1990s, local conditions were such that the establishment of the first foreign bank in Croatia was perceived by the public as something desirable, and normal in a business sense, even if war was being waged in some parts of the country. For example, there was a critical number of professionals—highly qualified people in Zagreb—who hoped to work and prosper with a new bank. Mr. Zebo, the first CEO of the RBA Zagreb management board (one of the bank's founding fathers), disclosed that there was little surprise when he asked the newly-established team to work hard from the very start. The most amazing thing was that the local labor force they hired was highly educated and diligent and that there were many skilled managers ready to work for a new bank. According to Mr. Zebo:

A younger generation emerged who were extremely well-educated. Their education was so good that they have been able to understand the procedures that foreign investors imposed on them very quickly, so that they soon started to apply their own ideas and to realize them. This, in turn, generated an irreversible process, and a lot of these young men and women were quickly transferred to the core business in the West to work there. This reflects the level of ambition that exists in these developing countries, or how should I call them? In Croatia and elsewhere, people have ambitions that they couldn't realize before, and these multinationals are the opportunity to leapfrog through the hierarchy and help themselves not only financially but also to the rewards of an achievement of another kind.

² See <http://www.ri.co.at>.

In 1995, the bank already acquired its key management personnel,³ and rented its offices and information facilities. Yet, during the 1995–96 period, some misunderstandings occurred pertaining to where the bank should focus its attention in the local market. The RZB headquarters decided, after some hesitation, that Mr. Zebo should be replaced with another domestic CEO. According to our interviewees, there were a few reasons why the RZB headquarters made this decision. One of them recalled that the banking business in Croatia in the 1990s allowed for risky lending with decreasing interest rates in a country burdened by inflation as Croatia recovered from the war. Yet someone had to take the risk. Domestic managers had an “invisible advantage” if compared with foreign managers or expatriates; they had an “embedded knowledge” about the Croatian banking market that foreigners (like Mr. Zebo) did not have.

When the management team was reformed in 1996, nobody—not even Mr. Stepic as chairman of the RBA Zagreb’s supervisory board—knew whether it was strong enough to make a breakthrough in the local market. To some top managers, Stepic’s strategy and vision were too daring and almost unfeasible. One of them told us:

I must admit, I did not share his visions in the beginning... You know why? In reality, that vision has been realized in a way that you enter the market before all others, under a strict schedule, and only once you settle there you calculate what else you have to do, and how to maintain the whole new system in a new environment! Simply, as I’m closely linked with the supporting activities, it bothered me that all these supporting businesses were put aside. I was asking myself whether those guys even thought about how to maintain the growing system. And all that I heard was—we’ll do it ‘by walking around.’ So, I felt like I was on a ship with an unbalanced cargo: if you put heavier stuff on the right, you neglect them on the left! That is why we have developed our commercial departments more than our system support departments! We now have to make a balance between the parts of the whole business system... However, regarding the market strategy, I must admit after all these ten years—this man has made the right moves. The system support functions you can fix ten years later, but if you fail to enter the market with the right timing...

³ They came to RBA Zagreb from the best-known Croatian banks: Ljubljanska banka, Zagrebačka banka (ZABA), and Privredna banka Zagreb (PBZ).

No matter how the new management members were surprised about the undefined organizational procedures, there was a certain consensus among them about what a new bank should not be. It should not resemble the banks from the old socialist system. One of our interviewees, when asked to evaluate the banking practice in main Croatian banks at the end of 1980s, said the following:

I don't recall anything of the so-called "Western approach" in these banks. I don't know exactly when ZABA started to transform itself into a "Western type of bank" but I know that in the case of PBZ it was after it was sold to a foreign (Italian) bank. Before it was heavy socialism there. We all saw how these banks ended. It was madness in the financial sense. The main debtors were sitting in the bank boards, and they were governing the banks! They were the same people who decided to get the credit from the same banks! Then it's no surprise that they went bankrupt. Besides, within the socialist banking sector you had a lot of so-called "technological surpluses," meaning too much labor. At the end of the 1990s, PBZ had to fire about 3,000 employees, and ZABA still has a lot of surplus employees.

How were Croatian managers at the new bank going to avoid the plague of the "old banking business?" How to stand out among other Croatian banks, especially the big ones—which had not only large market shares but also tradition and trust within local population? How to develop not only banking services within the corporate sector—as RZB was planning to do—but also to offer some products to the local population? The battle for the corporate sector was, in principle, won when the new bank offered to local entrepreneurs and citizens something they had been waiting for so long: new loans (for investments, cars, houses) with lower interest rates. An interviewee from the management board said:

As we were, in those times, the first foreign bank, we attracted some clients at the very start of our operations here. First, the more educated entrepreneurs came to us... meaning the most clever, most educated, and most courageous. That's why they got, in that period, the most favorable terms we could give to them. In other words, they got loans with lower interest rates, and that is the basis by which you're evaluated the most in the eyes of your clients. Also, the speed at which you make the credit available is important. Those are two main criteria by which people evaluate the difference between banks.

It was a complete surprise to the top managers in Vienna, as well as to some of the bank’s managers that the desired innovation was designed within the sector dealing with citizens—a concept later known as “retail banking.” It was initiated in 1997 and grew rapidly in 1998. A new strategy with a series of completely new products was born and its main message was broadcast through media with the motto “security above the existing interest rates.” The path to the bank’s fast growth was open.

Risks and Growth

The bank’s growth in the last one and a half decades was closely linked with the overall changes in the main macroeconomic factors determining the business environment in Croatia. RBA Zagreb is today a well-recognized bank all over Croatia and foremost among its competitors. With a 10.9 percent share in total banking sector assets at the end of 2008, it is the fourth largest bank in Croatia.⁴

By 2004, trends toward standardization and the fierce competition occurring in the Croatian banking market forced the managers to rethink not only the bank’s future prospects but also its recent past. Trying to get behind the story about the most successful organic bank growth ever seen in Croatia in the last ten to fifteen years, we asked our interview partners: (a) What were the critical moments in the growth process?, and (b) Who do you think contributed the most to the bank’s success? One executive from the legal division contended that the first question concerned the Croatian legal system: during this period “it tried to develop itself, at least it tried to look like a European system of laws within the field of banking industry.” Others spoke of “the first move advantage”:

First, Raiffeisen came here in the middle of a deep banking crisis. Those were the times of frozen bank accounts, when nobody in Croatia could get credit, and if somebody got it—the interest rates were astronomically high. Second, a brand new management team was positioned here, which later on gathered very good managers. And from the opening day here there was a very nice atmosphere, competent people, and the policy of the highest quality for the clients. Besides,

⁴ See http://www.rba.hr/my/bank/about_us/about_us.jsp?path=/o_nama/financijski_pokazatelji&language=EN

everything was done so that RBA might be recognized in the market as a non-socialist bank, something new and different from the others. And this was a remarkable advantage in relation to other banks that opened later.

Our interviewees are fully aware that the competition in the Croatian market has become so intense that a strong wave of capital concentration in banking business is expected within the next several years. One key executive concluded:

When we started, we established the bank first and tried to make it recognized on the market. Besides, brand building is always a very demanding process. Now we have a respectable market share. This is very important to us: it was realized by organic growth, and now it can also enable us to make some acquisitions in the future. Yet, it's always the profit that's important in the long run, as it was said in Vienna.

What Does Culture Have to Do with All This?

The bank's rapid growth in the 1990s could not have been achieved without the acceptance of the so-called "Western way of doing business" by the leading managers, that is, without new patterns of behavior and values shared with employees across the whole organizational system. There is convincing evidence in our interviews regarding how a new culture of useful knowledge and skills has been introduced in RBA Zagreb in the past decade. This culture was "imported" from RZB in Vienna and from other foreign network banks in different ways: through occasional and standardized education and training, new corporate governance principles (Čengić 2001), standardized reporting and operational procedures, annual and occasional managers' meetings, and through the exchange of ideas and best practices.

Our respondents understood the concept of culture very broadly in terms such as: business culture, organizational culture, corporate culture, Western culture, and Eastern culture. Most of them could not exactly define the content of these concepts, whereas some of them considered the (assumed) cultural differences between Croatia and other countries using "us" and "them," "Eastern culture" and "Western culture," or "our culture" and "their culture." On the implicit level, a broader concept of culture was also mentioned to mark a possible determinant of clients' or business people's behavior.

Culture as useful knowledge and skills

When the bank was established, its owners wanted to introduce new *know-how* to the bank, in order to improve its position in the market as quickly as possible. A member of the management board remembers:

When we started, we got from them instructions in the form of some guidelines about how to treat corporate clients. It was a manual in English, where you could learn the criteria on how to check the clients' solvency, the assets and liabilities, how to assess the management, and so on. Then our people went to Vienna to be trained, especially those who worked in the credit department. The main training issues were linked with credit analysis, and they frequently repeated such seminars.

An organized mode of transfer of new knowledge and skills also belongs to the “new banking style” that the owners and the new management wanted to develop in Zagreb. The “old socialist banking business” did not care for such “cultural software.” It did, however, take several years after the new system had been introduced before the concepts took hold. The main role regarding the testing, selecting, hiring, and education of employees is now performed by the Human Resources Department. As the bank grew, the Human Resources Department's role within this area became increasingly important.

Culture as implementation of new models of management

Among our interviewees, regardless of what division they worked in, there is a loose consensus that RBA Zagreb's intention, to be totally different from old socialist banking, is deeply rooted in the concept of a new type of manager and employee they want to promote within the bank. Although some of them emphasized that this type is a virtual one and dependent on the departments they work in, the majority of respondents think the main features of new managers and employees can be described by listing their most desirable traits. It is an attitude shared by almost all top managers, especially the ones within the Human Resources Department.

When asked to describe “the types of managers and employees most wanted in RBA,” an interviewee pointed out the following:

There's no ideal type of the most desirable manager or employee. But they have to be highly motivated because only such people work here... what's specific for RBA Zagreb is that we started from the bottom, having nothing, and up until now we made something here. The future manager has to have the ability to create something, must be aware of market demands and the surrounding competition, has to know what's happening on an international level, and must have a very expressed need for success. Regarding the employee, things are changing rapidly, and all of them have to be prepared for permanent change, that we have to move forward very quickly. That means they must perpetually learn and they always have to think one step ahead, no matter whether they are working in the bank lobby or somewhere else. One of the key factors of our success lies in our ability to define what is needed, and move to fulfill those needs very fast, faster than other banks.

However, additional education is required because, in general, the majority of our managers do not know how to lead personnel; they are not well educated in doing that, though we have some instinct for managing tasks. However, many managers are lost in this area.

Our evidence suggests that, on the level of primary principles, the concepts of managerial competence are generally American in their origin. These concepts are diffused internationally and transformed, in order to fit to particular conditions of local banks (DuGay, Salaman and Rees 1996). Our interviewee dealing with the employees' development said:

Regarding the required managerial competence, all this was done in cooperation with the members of the RBA Group. The methodology was American, I think, when it comes to methods for determining the key competences for particular working places. Yet, the competences by themselves were defined together with other members of the RBA Group. So you can see some sort of interaction here. As regards the differences between the "Western" and "Eastern" cultural model, we took from the West the methodology and some categories and names (from the concept of "leadership"). We're educating ourselves and additional trainings are in a way more westernized than they are Austrian or local, especially regarding the main issues, categories, and content.

The new models for managers and employees are an integral part of RBA Zagreb's organizational culture. It seems that the bank's overall growth has created pressure from top managers toward lower-ranking

managers. The latter are supposed to build and diffuse new business and working values that should be promoted as the genuine RBA organizational culture. There is a clear intention that organizational culture strongly supports the new models as well as the sense of belonging to the bank.

According to a respondent dealing with treasury and investment banking, RBA Zagreb's organizational culture is a specific one due to "some group feeling shared by managers and employees." A few other managers also confirmed that the sense of belonging and loyalty to the bank is the essence of what is usually called the "Raiffeisen spirit." Another interviewee of ours, an Austrian manager from Vienna, thinks that the "Raiffeisen spirit" he experienced in Zagreb is the same as the one in Vienna.

Culture as a bridge between the local organization and the global network

Does RBA Zagreb's perceived organizational or business culture belong to a more general RBA corporate culture or to a larger entity, a kind of Western business culture? A group of the interviewees thought that the local organizational culture is an expression of a broader RBA corporate culture. This thesis was also supported by a few managers working in the Human Resources Department and in the division for risk management. However, some respondents compared local organizational culture not with an abstract RBA corporate culture but with the organizational culture practiced in Austrian RBA banks. One manager from the division of legal affairs emphasized:

I think we're more like them because many procedures were transferred from them to us here. The way we work makes us similar to them because we're the Group, there's no way that everybody works in his own way. And about the difference? It exists where the Croats are generally different from Austrians; let's say that we are little less organized than they are; we do not like designed situations and procedures. Yet, when there is "a fire in the house," we are better able to improvise and solve problems under such conditions.

Yet, there were not many interviewees talking about differences between locals and Austrians or between the local and broader RBA organizational culture. A deeper analysis of the respondents' answers

revealed the important role the RBA matrix organizational structure plays within the network by transferring (almost invisible) cultures to local banks, including RBA Zagreb. Namely, when asked to explain the primary way in which the central office in Vienna communicated the desired model of business, type of manager, and so on that they wanted to see in Zagreb, one of the members of the management board noticed:

Well, we apply a matrix organizational mode, so our organizational scheme is comparable with the model of our owners. It has some advantages and some shortcomings. It's a tool used in Vienna to pass down along the organizational hierarchy some directions and ideas to network banks. There are also some guidelines in my area I have to realize, too. At the same time, I have to inform my boss about them. It isn't always well coordinated and we have some problems here. Yet, our owners have chosen such an organization and we have to deal with it. And I think that the key points here are good human relationships, communication, talking with each other, the possibility of information flow, and not to close off or to hide some information only for yourself.

Some (mostly top) managers have chosen to speak about the localization of matrix organization because they were quite impressed with the way it enabled them to participate in global business (although matrix organization is very demanding for managers (Sikavica and Novak 1999)). That is also why they stressed the importance of "local success," understood as a smart local application of the global principles of a matrix organization.

Conclusions

This story suggests that, due to special conditions in Croatia in the 1990s, the transfer of the Western/RBA culture was smooth, unconditional, and basically unidirectional. Looking at that process from a cultural point of view, the empirical evidence supports the thesis that from the very beginning of its operation in Croatia, RBA Zagreb acted as a "non-socialist bank," that is, as a genuine "Western" institution that seeks to introduce important innovations in the local banking industry. The "new organizational values," mostly subordinated to the strong imperatives of increasing the profit and the bank's market

share, and imposed by the bank's leading managers, played a significant role in RBA Zagreb's success in the last one and a half decades.

Some structural variables determine the process of cultural encounters within the bank. They take place over a longer time period, gradually, with no large shock (except perhaps for the less educated or younger employees). The encounters presume the existence of educated “cultural agents” (top and middle managers); when there are no such actors the process of cultural change slows down and is disturbed by “market identity” and “market capacity” problems. Our analysis shows that the overall “cultural scenery” is determined by the nature and structure of new economic opportunities, recognized by the new foreign owner. The main agents of adopting new market behavior and market-driven organizational culture within Croatian companies are mostly domestic top and middle managers. These “cultural brokers” (as to their education and personal cultural capital) were already “created” in the socialist period; they were ready for a new institutional framework and new owners. They invested in new business and cultural encounters. The main “personal asset” they have is “embedded knowledge” about the domestic market and social environments.

While the top managers' efforts in RBA Zagreb are directed toward the integration of the company into a larger corporate setting, they want to maintain the market flexibility of the bank. New models of “management competences,” new work attitudes expected from employees, investment in personal training/capabilities, the increased importance of the Human Resources Department, the gradual replacement of the “local workers' mentality” with one that is “internationally oriented”—all these elements of “intellectual and management technologies” serve as newly introduced “cultural drivers” for changing the work attitudes and business behavior. However, the localization of management culture is also important; it made some innovation possible, for example, in retail banking.

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The Rise of a Banking Empire in Central and Eastern Europe

Raiffeisen International

Violetta Zentai

Banking has become a salient component of the transforming economies in Central and Eastern Europe due to the fact that only few of these economies had started to establish commercial banks during the old socialist system, their territories perceived as fertile grounds for profit and opportunities in the rush for new markets. Due to their actual economic and symbolic power, banks tell us about the nature of privatization and its trends, mobilize social imagination about wealth and monetary power, and set the norms of actions in corporate governance and the banking sector. This comparative study will investigate the main patterns of encounters between actors and organizations in a transnational space that a successful international banking group enacted in Central and Eastern Europe (CEE) in some countries of the DIOSCURI project. The comparative inquiry uniquely relies on five case studies on subsidiaries of Raiffeisen International as well as three on other banks as examples.¹

Post-Socialist Circumstances for Foreign Investment

Foreign investments and multinationals

The literature on economic transformations in CEE discussing the results of massive foreign capital inflows argue that the motivations of domestic business actors to adapt Western/foreign models are shaped by the stage of post-socialist transformations, the nature of the sector

¹ Case studies have been completed on Raiffeisen Bank International subsidiaries in Croatia, Hungary, Poland, Romania, and Serbia, and in Bulgaria on Z-Bank (fictional name), in Slovenia on Nova Ljubljanska Banka, and in the Czech Republic on Živnostenská Banka in 2005–2007. The author of this chapter is grateful to the insights of the respective authors of these case studies. See their list in the Reference list.

concerned, and the ownership structures. The goal behind resonating with or resisting new business models by companies may stem from survival, legitimacy, and efficiency considerations. In larger foreign-owned enterprises imposition and imprinting is common; in large domestic firms acquisition, inducement, and incorporation prevail; whereas small enterprises follow imprinting, incorporation, bypassing, and acquisition of knowledge and patterns of economic behavior. It is regularly observed that organizations in CEE countries tend to solve inconsistency problems by decoupling different parts of their economic practices and developing a facade of legitimacy (Lang and Steger 2002, 287).

Institutional stories depend to a large extent on the very *sector of economy* the firm belongs to. Transnational impacts are different in how they reach enterprises in banking, manufacturing, or agriculture. The market competition in specific sectors (for example, the availability of regional markets), the typical purpose of the privatization led by multinationals, and global trends in consuming practices (for example, food industry) generate different encounters due to the particular sets of local and foreign actors, institutional design, and communication needs in different sectors. Different *types of enterprise* may also limit and enhance cultural encounters between local and foreign actors. Global and well-established multinationals tend to bring more ready-made patterns to institutional design and business policy, and thus tailor the perceptions and inclinations of both locals and foreigners within the firm. This is in contrast to the region's own multinationals that are often in the making and by default have less norms and rules of conduct available in standardized and tested formats.

Multinationals become the most visible symbols of Western/foreign/global capital in the public eye by introducing new forms of services associated with Western capitalism. It is highly debated, however, how these visible entities play into the "economic culture" of negotiations, competitions, contests, and fabrication of management models, organizational design, corporate governance, and labor relations in this part of the world (Marginson and Meardi 2004). This comparative study investigates the availability and incentives of transplanting ready-made tools and business practices by Raiffeisen Bank International and local reactions to this process in Central and Eastern Europe.

Liberalizing regulations in Europe and a competitive international environment contributed to the development of universal banking

services in the early 1990s. One can also witness rapid mergers, acquisitions, and greater diversification of the products and services. Banks reacted to the increasing competitiveness of the environment by specific strategies for internationalization such as building their own networks at high cost, negotiating mergers and acquisitions by handling cultural and organizational complexity, and seeking cross-share holdings by buying one another's shares. Internationalization, however, has not proved to be an easy target for all actors in banking. Extended transnational network presents advantages as well as risks for business results (Quintana 2003, 8–9). The typical avenue for foreign banks' market expansion was first to enter in corporate banking and later embark on retail banking. According to the Hungarian experience, the best performances were by those who made new investments in new banks and thus avoided taking over in-built weaknesses and problems of older domestic banks. Success is also explained by relatively early entry to the market: Among the four best new banks in Hungary, three started to operate in the 1980s. They selected the best clients, ensured lower costs, and recruited the best local experts of the time (Várhegyi 2001, 586–7, 591). The high profitability of banking sector in CEE is also explained by the banks being able to easily share or transfer their relatively high costs to their clients (Várhegyi 2003, 1034).

The advance of Raiffeisen in CEE embodies a highly successful investment and expansion strategy. Being the first among the early birds, combining new investments and acquisitions, and cautiously expanding from the corporate sector to retail and other fields, all belong to the essence of the Raiffeisen strategy.

Raiffeisen's Corporate World

From savings to transnational banking

As one of the oldest Austrian savings banks, Raiffeisen Bank (RZB) started to buy shares and then establish whole new entities in the emerging banking sector in Central Europe at the end of the 1980s. It opened its first subsidiary in Hungary in 1986 and started a steady march eastward across the map of Central Europe and later the Commonwealth of Independent States. By the new millennium, RZB had spread across the former socialist countries and established a multinational shareholding company, Raiffeisen International. At the beginning of the expansion, the bank ranked only eighth or ninth in its

home market. Since then, the mother company moved to the third position at home. By the mid-2000s, the Raiffeisen Group became one of the biggest banks in CEE and a leading Western-owned banking group in the entire CIS.

The organizational structures of the bank underwent far-reaching changes in 2004. All management functions were consolidated under the umbrella of Raiffeisen International. The international arm started to act autonomously but in close collaboration with its majority shareholder, the Austrian mother firm. The shares have been traded on the Vienna Stock Exchange since 2005, with RZB's majority share of the common stock while the rest are free-floating. A merger of the Austrian mother bank's (RZB) customer business segments and Raiffeisen International was the foundation for the establishment of Raiffeisen Bank International (RBI) in 2010. Currently, RBI operates as a universal bank in 17 markets in CEE through a closely-knit network of subsidiaries, leasing companies, and specialist financial service providers. It embraces 57,000 staff in around 3,000 business outlets and serves 13.5 million customers in this region. The bank has also opened offices in major international financial centers and started to expand to South East Asia and China.

It is not only the geographical expansion of the company that appears to be noteworthy but its business results as well. In 2006, Raiffeisen International's consolidated profit (after tax) adjusted for one-off costs rose by 55 percent after a steep rise in profits in the previous decade (Raiffeisen International 2006). From 2008–2009, the slowdown in real economic activity reached Central and Eastern Europe with a decline in savings, massive losses in household wealth, and rising default rates. As major players in the CEE region, Erste Group and Raiffeisen International are among the companies most influenced by the financial crisis in the region (Winkler and Haiss 2010). In 2009, Raiffeisen International's financial indicators revealed a major decrease in profits. In early 2009, RBI announced downsizing by eliminating every tenth job with the most radical effects in Ukraine, Romania, Bulgaria, and Russia (Raiffeisen International 2009). The European Bank for Reconstruction and Development (EBRD) provided a major financing package for three subsidiaries of Raiffeisen (Romania, Russia, and Ukraine), primarily to shore up the lending capacities of the bank to corporate actors. By 2011 profits had returned, with a 30-percent overall increase of consolidated profit compared to the first half

of 2010 across the breadth of its portfolio of bank subsidiaries in Austria, South-Eastern Europe, Central Europe, and the CIS. Other financial indicators also tell about a successful recovery of the bank (Raiffeisen Bank International 2011).

In conceiving its ambitious plans for building a large banking group and successfully managing its growth, the current chief executive officer (CEO) has taken a decisive role. Herbert Stepic joined RZB in 1973, became member of the Managing Board in 1987, and was deputy to the CEO since 1995. He has been chairman of the Managing Board and CEO of Raiffeisen International since June 2001. He is responsible for governing a number of tasks but what is the utmost tangible in the lives, all subsidiaries in CEE is his lead in strategy and acquisitions. Stepic confidently proposes that “the transition process has been completed only to one-third; the CEE-SEE region still promises ‘juicy’ banking business in the future” (Winkler and Haiss 2011). The bank’s most recent business report argues that in spite of decline and cutbacks in 2009–2010, the banking sector should also return to its long-term profitability in the coming years, although with lower growth rates than during the boom (Raiffeisen Bank International 2011).

Corporate self-image

According to the self-image of the management, Raiffeisen’s success in Central and Eastern Europe could be tied to two main features of a Raiffeisen tradition: the *strong local roots* of the subsidiaries and their high degree of *autonomy*. The corporate business model is explained and justified by old and new local (regional) knowledge, and equally importantly by the courage to use a domestic banking model, or at least its spirit, in an international group of subsidiaries.

First, the contour of Raiffeisen International’s self-image can be outlined through investigating the statements that the company makes to the wider public about itself. The bank’s annual reports regularly refer to in-depth familiarity with the relevant local history, society, and economic landscape. Raiffeisen International’s entry into the market was fostered by the mother bank’s (RZB) traditionally close ties with the region. Strong economic bonds existed between Austria and the countries of Central and Eastern Europe even during the communist regimes. In addition to providing banking services for RZB’s Austrian and foreign customers, Raiffeisen International also identified and exploited many opportunities for itself within Central and Eastern

Europe. “The region’s poor service standards and inadequately developed banking industry created ideal openings for growth and the prospect of ample profits” (Raiffeisen International 2006). This statement is blatantly open about the fact that in-depth familiarity means familiarity with the nature of underdeveloped market conditions and weak banking penetration in the region.

Attached to the electronic version of the annual report in 2004, Raiffeisen International released a web-based brochure entitled *The Spirit of Transition*, which promised a guide to the “cultural landscapes underlying growth in Central and Eastern Europe.” The initial statement proposes that, “Former Eastern Europe has not just moved closer to the heart of Europe in geopolitical terms. It has also become a central source of both economic and cultural momentum... The numbers that quantify economic growth are just part of the reality. To interpret them, it helps to know something about local backgrounds and the worlds in which people live.” In contrast to the sober style and layout of the Raiffeisen International’s business reports, the cultural guide follows the style of sophisticated tourist brochures with ironic language, insider observations, and an idiosyncratic selection of information. The guide is composed of concise country profiles with pamphlets and caricatures. It cautiously uses politically correct language by trying not to make strong judgments. Its playful approach offers commentaries on European (and non-European) cultures and traditions with an ambiguous language of “worthiness” by references to potentials for economic take-off and entrepreneurship (Raiffeisen International 2004).

The corporate image of the bank obviously is to reflect upon the coping capabilities of the company during crisis. The 2010 annual report’s lead imagery is inspired by the idea of a new dawn (Raiffeisen International 2010). The *Good Morning* title and a picture of a rooster refer to a post-crisis era that the improving results underscore in the proceeding pages. The significance of the new entity created by the merger is also a key to the new corporate image in 2010. The CEO in the annual report talks about the “home market” of the bank in Central and Eastern Europe in addition to the Austrian branch. The region is not only the frontier of poor banking services. The account for the difficult years of 2008–2009 and the portrayal of 2010 as the turning point confidently posits Central and Eastern Europe on the world map of steady hopes for economic recovery in contrast to the “peripheral countries” of the Eurozone, such as Ireland and Greece.

Corporate Culture and East-West Encounters

Bank cases in a nutshell

A quick summary of our cases reveals that the bank's first encounters with and accounts of differences, conflicts, and adaptations were eventually smoothed over by growth prospects and a genuine sense of local contribution to that growth on the part of the bank's international branches. For example, the business success of the Croatian unit endorsed this strategy and satisfied the ambitions of the main local actors. Raiffeisen Hungary's story is captured as an unarmed liberation struggle between the flagship unit and the center in the network, often told from the (self-) ironic perspective of the opposition to imperial power in the old Habsburg Empire. So far, the sense of business success and autonomy have led the local subsidiary to elevate itself above both the mainstream quality of domestic capitalism and that of the original home of the banking group. Raiffeisen in Poland can be interpreted as a story of complex local reactions to building the transnational company of the bank, namely how to handle the dynamics of freedom and standardization. The account for the outcome spells out successful adaptation with diverging pride and discontent, not only with Raiffeisen corporate culture but also with local capitalism. The post-privatization story of the Raiffeisen subsidiary in Romania tells a lot about the percepts of domestic and global capitalism. The ultimate experience is an encounter with a transnational capitalist class regardless of the origin of the mother bank. The early romance is followed by a satiric twist in which a double speak is enacted. In Serbia, Raiffeisen, the first foreign bank in the country, formed both horizontal and vertical relationships of control, work, and organizational culture inside the organization. Cultural differences are articulated between westernized Easterners and genuine Easterners, more importantly than between Westerners and locals.

Three other banks also serve as test cases for our investigations. In Slovenia, the Nova Ljubljanska Banka is known as a successful business case. Neither foreign actors nor their local partners are inclined to note major gaps in how they think about business ethos and social values. The main story is a successful adaptation of Slovenes to the West despite some unique properties of Slovenian managerial style. The Bulgarian Z-Bank's (fictional name) story is of unambiguous business success. Actors taking part in transnational encounters report a win-

win situation and smooth cultural compromises in a triadic space (foreigners, young local managers, older local managers). As the most curious encounter among the banks, the Czech Živnostenská Banka demonstrates a sequenced and complicated privatization story. In its final stage, Italian investors took majority ownership in a bank familiar with German banking models and a German business environment in the recent past. The outcome seems to have encouraged Czechs to feel superior to the foreigners and engage in a permanent struggle in adjusting to a new hybrid of organizational culture.

Views on the mother firm and the center

Case studies and interviews confirm three types of opinions on Raiffeisen's position in the international banking landscape. The first type captures the idiosyncratic properties of RBI without worrying too much about a distinction between a general Western banking or RBI corporate model. The positive version of such an account argues that there is a Raiffeisen spirit saturating the network and its entities, and it is characterized by respect for colleagues, teamwork, and entrepreneurship. Services for the clients and the organizational culture are isomorphic: built on respect and grace. The unique role of a visionary CEO of the transnational company is frequently mentioned by those who are entrusted by founding and/or mastering the transformation in local subsidiaries. A more critical version of the account proposes that RBI does not have a professionally developed culture of banking, thus it has to be shaped as the network grows. No institutional knowledge transfer is ensured by the central management and the prevalent strategy is based on trial and error.

The second view is shared mostly by those who had previous business experiences. They separate large, hierarchically managed, and highly standardized transnational banks and RBI. From this comparative perspective, Raiffeisen International is valued exclusively positively. "Raiffeisen isn't a Coca Cola bank where the main objective of the marketing department is to translate the slogan: we love it." In stronger language: "Raiffeisen isn't a totalitarian bank, it leaves a margin of freedom within the structure. Citibank's a totalitarian bank, where all the decisions are made in a hands-on manner." The same negative reference to Citibank occurs in another country, where it's portrayed as "McDonald's banking." On the contrary, RBI respects local success and performance. "We didn't come across any situation

in which something completely inapplicable was introduced here.” Some local actors argue that French and German banks exert much more control on local management and maintain a much stricter hierarchy than Raiffeisen. Due to distance between the centers and their subsidiaries, local managers do not take risks, they only try to avoid mistakes.

Finally, the third classification identifies distinctive Anglo-Saxon and German (Austrian) banking cultures. In this reasoning, the former is posited explicitly or implicitly as more developed. Some young managers state that RBI, informed by a German school of management, still misses an Anglo-Saxon approach to remuneration. Another young manager warns that other financial institutions in the region are far ahead of Raiffeisen due to their American organizational model. A senior manager explains the differences in the concept of human resources: the German or Austrian version is serving, whereas the Anglo-Saxon is strategic. From the interview it was evident which one is preferred in the case of Raiffeisen.

Images of the local subsidiaries

Those local subsidiaries that became part of Raiffeisen through acquisition had their own histories in the old state socialist system, and thus their own spatial and temporal references to interpret their transformations. Among their managers, there is unanimous pride in a decisive move from a state-owned socialist firm to Western one. Ironically, almost all local banks in the Raiffeisen network examined, old and new, big and small, have some kind of flagship feeling for either being the first foreign bank in the country or just having excellent and unparalleled business results. The dynamics and stages of development of the local bank within RBI are often spelled out. Some founding fathers of local subsidiaries propose that at the beginning they overvalued the significance of banking knowledge. But they realized that the key knowledge is not technical but “ideological.” These voices are often combined with a strong belief in genuine contribution of the local subsidiary to the whole of Raiffeisen’s corporate culture.

Local managers tend to talk about their own banks as full or partial embodiments of a domestic business culture or model of capitalism, though slightly above its main standards. They are proud of difference in sameness: remaining distinctive in Raiffeisen’s institutional culture. The self-portrayal is often critical and self-congratulatory simultaneously.

“Our people are usually stronger on an individual level than in teamwork. We don’t like designed situations and procedures. We like the fire in the house, to improvise and solve problems.” These statements celebrate a heroic or even quixotic manner of leadership in contrast to some kind of rational, collaborative, and matter-of-fact passages. Nonetheless, identification with and loyalty towards the bank is reported as an achievement by the local staff.

Our informants often use comparative reasoning or refer to the peculiarities of an ongoing transformation. They compare the properties, skills, and routines of the local staff to the actual or idealized ones of the foreigners. In these accounts, it is rare to stress unilateral relations or a neatly set hierarchy between local and Western capacities and values. One could seldom find signals of inferiority and the reality is almost the opposite: local managers found many instances in which they could prove their superiority over the foreign managers. Most importantly, local managers are seen as more flexible than their foreign colleagues. When something is valued that the foreigners bring as good to the company, drawbacks are quickly pointed out to prove the equality of parties. More contentious voices are also heard pronouncing that people in local subsidiaries are less ambitious than their Western colleagues. It is admitted that domestic managers cannot tolerate failure and tend to fight for their personal rights and interests.

The local managers frequently emphasize the contribution of the local staff to shaping something new in the local organization. Founding fathers take more pride than younger and recruited colleagues, who are more critical to any structure and acclaimed value. Some ridicule hypocrisy within the organization by those who stay long hours to please supervisors. Very young officers conceive of the system of promotion as unsatisfactory for it favors individual achievements, rather than teamwork, and thus is greatly influenced by personal relations with supervisors. The opposite view celebrates that authority is based on performance rather than position in the hierarchy. Some value in particular that hierarchy is smartly practiced but rarely surfaces in face-to-face communication. Several managers are proud of the way in which their functional department works, for example, that marketing of the local subsidiary is not aggressive but innovative. To undermine the commonplace generational gap paradigm, local managers in some countries observed portray the older generation as conveying an invaluable asset to successful capitalist transformation. “The greatest

flexibility is shown by those who are about 60 and adapted to a new organization successfully.” The mirror image is also voiced by separating two generational groups (32–38, 46–55) and marking the 40 as a demarcation line. The split is sometimes pronounced between the general Raiffeisen spirit and the local clients in a place where Raiffeisen is the first foreign bank. “We belong to Western European banking culture but you cannot talk to local clients in a Western European way: we somehow have to find some compromise.”

Dynamics and dialogue between the center and the subsidiaries

All local institutional stories we investigated reflect upon the relationship between the mother firm and the subsidiary. The Raiffeisen subsidiaries created in the mid-1990s or before first experienced a great deal of autonomy, which recently was renegotiated and contained in several respects. In the beginning, unlimited trust was placed in local management knowledge, and a move later occurred to standardization, which was not yet felt as being too painful or unbearable. At the time of our fieldwork, however, local managers articulated a fear of the impact of the new trend. For example, they warn that standardization in risk assessment lessens local knowledge, essential amidst ambiguous market conditions. Others straightforwardly express that mainstream international standardization in banking hinders the job of the local management and undermines local incentives. “Intellectual power would be in the network, but instead ready-made solutions are applied by the center.” Some others complain about certain procedures that are simply unnecessary and inadequate, and generate additional costs. In these accounts resistance towards a conscious centralization of the company is mixed with a dispassionate understanding of the conditions of international banking in global capitalism. For some, the subsequent strategy is a never-ending, mostly virtual, liberation struggle, for others an enduring complicity game.

Those local chapters established by acquisition after 2000 account for distinctive encounters. They tell a story in which, after muddling through the difficulties of the transformation period, some kind of balanced relationship is established between the head office and the local subsidiary. Early communication troubles are remembered, such as an initial allergy to the notion of competence, which in the beginning meant for the locals a “cap on the amount to sign for.” Some informants remember hard times during the reorganization process due to a

lack of clear rules. Initially, training courses designed by the center were felt by many as artificially imposed but were later internalized rather smoothly. In the acquisition-related stories generational issues created major anxieties in the early period of the institutional marriage. Several informants complain about prejudice towards older employees in the local subsidiaries. The counter-image portrays the older staff of the local chapter claiming undeserved privilege. It is noteworthy that interpretations of differences between Austrian/foreign and local managers and employees in these stories do not rely on cultural reasoning: people are viewed differently due to their hierarchical positions.

Within and across these two major types of dynamics, individual accounts refer to a variety of positions and approaches to center-sub-sidiary relations. The *colonial* account is voiced by some bitter statements. "Working in Vienna meant to be better or more powerful no matter of performance." "Third-class foreigners meet first-class locals." In one country local managers refer back to enduring oppositional relations formed under the Habsburg Empire. The contact with the center is not based on dialogue, rather on a model in which "we manage, you work." Austrian staff is often viewed as being afraid of not having control. The center is sometimes short of imagination. A recurring theme is the personality of the CEO, who dominates the cultural milieu of the whole network. The surrendering voice talks about not much involvement in shaping the transnational structure of Raiffeisen International and rejects responsibility in finding the final shape of the transnational corporation.

The *autonomous* account is confident that, "We never made here any business move by blindly following instructions from Vienna." It is stated with confidence that business success does not enforce strong transnational governance and the central regulations are always introduced after careful consultations. Some believe that the mother company does not seem to be happy to impose things: "Austria is close in literal and figurative meanings, and the head office is accessible for local CEOs." The explanation for the respect of local knowledge and autonomy acknowledges a desire for better access to local markets. Others believe that little know-how is needed from the center in retail banking. Some praised the bank's headquarters for not draining brains from the subsidiaries. Local managers are ready to express their independence in some functional areas such as marketing and human resource management. At worst, they see a necessary compromise between local and

central will. Finally, some expected more guidance at the beginning and were positively surprised that they were not given "cookbooks."

In one of the banks examined outside of the Raiffeisen network, local managers' expectations were saturated by a great deal of idealism at the beginning. Then they felt disappointed with the organizational practices of the company they became part of. They wished to receive a clearer vision and strategy of reorganization at the time of the takeover. They were unhappy with high fluctuation of the Western managers. Yet, younger local managers were positively surprised by the spirit of the cooperativeness and the sense of teamwork demonstrated by their Western colleagues. Interestingly, expressing disagreement with a foreign manager is perceived primarily as bravado, but if foreign managers respect the opinion of the locals, it is also regarded as achievement. Suspicion about the objectivity and clean competition for new appointments is also significant and contrasts with an Anglo-Saxon model. In sum, Western managers are seen to have better capacities to adapt to new situations yet an overestimation of their qualities disappears from local accounts as time passes.

In another case off the Raiffeisen map, local managers' reports about major cultural tensions and mismatches are an exception among the banking cases here. Local managers of the Živnostenská Bank Consider the takeover of majority ownership as an uncoordinated process. Although the owners believe that they implement Western standards, locals are shocked and bothered that nothing is managed by rules. Locals argue that this is evidently different from other Western banks. Fragmented and uncoordinated communication remained permanent. Sharper accounts propose that chaos seems to be the strategy in the organization. Responsible local and relaxed foreign attitudes are contrasted. The foreign representatives propose that too many rules kill individual initiatives and responsibility. In a similar vein, good informal relations are preferred for implementing any changes in the organization. Foreigners are convinced that locals have a distinctively German approach. Their style slows down the process when negotiating with clients, it is rigid and not customer-oriented. It adds to the pitfalls and misunderstandings that often happen when corporate communication is conducted in a foreign language by both parties. Regarding reconciliation of the articulated cultural gaps, some believe some compromise on the lower levels of the hierarchy can be achieved.

Local and foreign (Western) business cultures compared

Actors in this project were given the chance to speculate and articulate their reflections, views, and opinions on the domestic or local business encounters beyond the scope of their company. Local managers in the new EU member states often feel that local business actors like pursuing new challenges, thus they are the true entrepreneurs of the emerging capitalisms in the region. The mirror image suggests that in transnational firms, “what’s not explicitly allowed is forbidden.” In a more acid account: “Austrians don’t have big problems to solve, thus they’re crazy about the smallest of things.” Locals believe that they have “moved towards a more universal approach” to business in contrast to a highly technical Western approach. Many local respondents are proud that the business culture of the respective country develops according to Anglo-Saxon norms. Viewed from that point of view, “Vienna’s part of Central Europe with its *Grinzing* culture: informality and slower deliberative process, personal contacts matter a lot.” In another characteristic conviction, differences between more developed and local capitalism is not a matter of culture but ties to financial centers in the world. “If you want to learn new things, you should reach out to the markets that set the standards.” But this knowledge is presented as abstract if deprived from the local contexts.

When contemplating the local social context, it is often spelled out that Central and Eastern Europe appears to be weak on trust and respect for the law. Many see their social environments filled with risk avoidance, fears of taking decision, and efforts to avoid taking responsibilities. Others pinpoint the nature of local economic actors that do not like orderly procedures and feel uncomfortable when forced to establish routines. Moreover, “like in a Latin nation, everybody has ideas, self-conscience, and knows the solution to problems. At the same time, they have an aversion towards reporting what’s inherited from the socialist times.” This account sees a mixture of over-arching historical constructions and the recent past under the characteristic properties of the local actors. In several accounts a ray of hope is seen in a generational shift that carries over all the good qualities of domestic business structures and leaves behind the unfavorable ones.

Informants in countries formerly part of Yugoslavia still see themselves as being more developed than other parts of CEE in the 1980s, and apparently closer to the West than Central Europe. They take pride

in that some bank services were known and used in the socialist period. This self-positioning puts managers from this region in a superior or similar level with their counterparts from CEE. In a more reflexive account, local managers are individualistic in making decisions but collectivist in taking responsibility. In another South-Eastern European country, there is a pride in post-socialist market development. In the banking sector, the distance between local and foreign management styles is viewed as diminishing. On the same token, bank customers are seen as inferior in this development: they are governed by redistribution rather than the market. Many local firms wish to receive loans based on personal networks, which “reminds one of Austria 25 years ago organized along party lines.” In these accounts, the local economy is divided by market compatible and non-compatible actors.

Summary notes on encounters

Two distinctive corporate models of banking with major transnational reach across the post-socialist business arena are identified and explained by our respondents. Many of those who are currently working at banks privatized by foreign capital have had some encounters with banks with hierarchical institutional and management forms, leaving little space for local thought and action. In their account, Raiffeisen Bank International has introduced a model of banking that relies on a relatively flat organizational model and decentralized decision-making. Stories of the local subsidiaries reveal that the moments and models of privatization/investment matter a lot in how foreign and local actors interact, and how they negotiate norms of actions during the steady expansion of the bank.

Basically all bank cases in our sample tell about the significance of the preliminary cultural knowledge of the involved actors. This knowledge is shaped by the preliminary experience of the main actors, depending on their Western, local, or mixed socialization and business career. In few cases, these actors have been exposed to other post-socialist or Global South transformations. It deserves critical attention how the vocabulary of cultural encounters is constructed in the encounters of individual actors, institutional customs, and broader social discourses. Informants tend to use East-West, foreign-local, global-local binaries yet often deny simple contradictions or duality. References to regional (for example, Central Europe, South-Eastern Europe), civilizational/cultural (for example, Latin, Anglo-Saxon) and national characteristics

is preferred, but in certain contexts the main actors are unwilling to use a “cultural” language; they interpret their experiences through business development concepts.

As far as the individual stories are concerned, our informants believe that generational distinctions are paramount in cultural encounters, but not always triumphing the younger cohort of employees. Foreign and local managers had their expectations of cultural difference about each other, but encounters rarely generate dramatic surprises. Sometimes initial difficulties, misunderstandings, and false expectations give their place for genuine recognition; in other cases the originally positive expectations turn into critical appraisal and disappointment. Regarding Raiffeisen Bank International, nearly all its employees feel that it is a special entity on the map of successful banking, a culturally embedded operational manner, and substantial autonomy that the local subsidiaries enjoy. Growing fear, concern, and critique, however, is also expressed as RBI standardizes its business services and management. Numerous respondents articulate their experience as a banking development drawn up in global rules and patterns. In other words, in their eye, conflicts and compromises have nothing to do with the specific encounters of a mother firm from a particular Western country and its network in the CEE region. Although our case study method does not allow us to draw strong causal links, it is worth mentioning that our experiences are, at least partially, congruent with the results of a recent comparative sociological investigation. Bluhm, Martens, and Trappmann find that business leaders’ concepts of the company and subjective orientations depend most importantly on the size of the company and the sector of the economy rather than biographical variables (Bluhm, Martens and Trappmann 2011). Furthermore, the Central European managers do not display paramount neoliberal attitudes, their belief systems combine different elements of anti-collectivist and étatist convictions.

Cultural encounters in empire building

It is commonplace that states and large enterprises mobilize political and market powers that are often antithetical to each other. Nonetheless, market forces transgress political boundaries, and politics are often inclined to intervene in market affairs. Furthermore, there are some constructions in both realms that might use forms of action, identity, and authority that have some common roots, grounds, and references in history. Empires may be such. The Raiffeisen story evokes images

of empire—and not because the homeland of the mother bank is in a country that had been a successful empire-builder along the Danube centuries ago.

Inspired by earlier treatise on empires, scholars started to contemplate on how the notion of empire helps explain the emergence of some structures in the new Europe and other entities in the current global order. Although the subject of these inquiries are the political domains in Europe, the conceptual proposals seem to be relevant to study economic configurations as well. Relying on Beck and Grande (2004), Somek argues that “(I)mperial rule is not predicated on inclusion and exclusion but on permanent expansion and delimitation. Empires grow on a territorial level as well as through the assimilation of a variety of denizens. The techniques of exercising rule are defined by an asymmetry of membership rights for different subunits and the concession of socio-cultural pluralism. Empires are organized in concentric circles. Not every subunit participates fully with all rights and obligations; however, there is status equality among those who are in the same trenches” (Somek 2005, 14–15). Empires offer differential modes of participation for their constituencies depending on their distance from the center of power. The authority of the center tends to diminish towards the periphery but that is still considered as fully participating member. One would think of empires as slowly moving structures. However, empires are often integrated by permanent changes through interpenetrations between and among the layers of the multilevel system of governance, through the transformation of national units into components of a larger system, and through the pluralization and interaction of cultures (Beck and Grande 2004, 102–103).

Contemplating the implications of theories of empire may bring us close to the theorem of Leslie Sklair on a transnational dominant class that inspired one of the Raiffeisen case study authors (Sklair 2001). The transnational capitalist class controls the forces of globalization in some spheres by interlocking directorates and cross-membership in international institutional complexes. This dominant class possesses internal homogeneity and keeps a firm distance between themselves and any citizen from a different part of the world. Thus, it seems to rely on network powers, whereas empires are always hierarchical in their set-up even if both of these structures support unequal processes in foreign investments and global exchanges. Resistance against the center of power and its ruling ideology could be differently conceptualized

and practiced within an empire and vis-à-vis a transnational class. But in theory they could go hand in hand in controlling cultural encounters, shaping corporate cultures and models, and discourses on capitalisms in a broader global order.

The logic of empire building in transnational economic affairs also resonates with the concept of transnational cultures that Ulf Hannerz proposed many years ago (Hannerz 1996, 106). He argues that transnational cultures that have systematic and direct involvement in more than one culture and that are territorially still anchored also have some centers from which particular meanings are produced and disseminated. Thus, center-periphery relations remain paramount. Institutions often move together with people. The main actors in this space, the cosmopolitans, have specific knowledge, which is a decontextualized cultural capital. It is usually expansionist and strives towards *mastery*. The Raiffeisen and other bank stories reveal that local actors believe that they are not subordinated to any transnational capitalist class, empire, or mastery of cosmopolitans. They have their own power and achievements through business encounters—for good or bad for the local capitalisms they build.

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Part 2

State Governance: Unilateral Adjustment?

Transmitting Western Norms

The SAPARD Program in Eastern Europe

Katalin Kovács and Petya Kabakchieva

Introduction

This paper will analyze a European Union (EU) program called SAPARD (Special Accession Program for Agriculture and Rural Development) in six countries: Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovenia.¹

In this study SAPARD is regarded as a *potential conveyor* of Western norms and governance techniques to the East. It is not the program itself that attracted our interest; instead, we focused on the institutional changes it brought about. Is there any chance for a mutual understanding and recognition of differences and similarities on a playing field such as this? Can compromises be forged? What is the chance of hybridization in the newly established institutions? Although, according to our hypothesis, the path for softening the unequal position of the provider and the recipient during the East–West encounters was either non-existent or extremely narrow, we scrutinized all possible signals suggesting the emergence of hybrids.

Institution, Institutional Culture, Institutional Change

Institutions are commonly understood as *structured* and *repeated* actions aimed at achieving a particular goal. As Berger and Luckmann put it: “Institutionalization occurs whenever there is a reciprocal typification of habitualized actions by types of actors,” where habitualization is defined as any action that is repeated frequently and becomes a pattern which can then be reproduced (Berger and Luckmann 1967, 53–54). This definition does not work in a situation of intensive cul-

¹ The authors of the case studies are as follows: Bulgaria: Petya Kabakchieva and Ilia Iliev; the Czech Republic: Blažena Matasová; Hungary: Katalin Kovács; Poland: Cezary Trutkowski; Romania: Florian Nițu; Slovenia: Darka Podmenik. The authors express deep gratitude to all of them.

tural exchange and dynamic social change. Nor does it work in the context of the European integration of post-communist countries, which have had until recently quite different institutions. Hence, we need a more flexible definition of institution, a definition that can accommodate historically established norms and, at the same time, possibilities for changing the habitualized actions.

The “new institutionalists” are interested precisely in institutional change. According to Douglass North, “institutions are the rules of the game in a society or, more formally, are the humanly-devised constraints that shape human interaction” (North 2000, 12). New institutionalists make distinctions between two levels: the level of formal rules or organizational structure; and the level of informal setups, which belong to the sphere of culture. Formal rules can be changed easily; this is the task of entrepreneurs (North is concerned primarily with economy) and, we would add, of politicians. That is exactly the approach of the EU: changing the rules by imposing the *acquis communautaire* on the accession countries. Informal constraints change much more slowly, but ultimately the change in formal rules will result in a new informal balance (121).

We will also introduce two institutional levels, whose coherence determines their effectiveness. The first level includes officially adopted and asserted rules, which constitute an *institution's organizational structure*. On the second we find *institutional culture* consisting of historically developed values and norms of proper public action and conduct. Institutionalized action may be effective only if everyday behavior is consistent—or at least does not clash—with the formal rules. Using a computer metaphor, if the organizational structure is the *hardware* of a program, it cannot work without its *software*, that is, without people's perceptions and understanding of its functions, and the ways of working with it.

Two levels of cultural encounters were identified by nearly all authors of the SAPARD case studies elaborated within DIOSCURI: *interpersonal and institutional* (or organizational), corresponding with the two institutional levels highlighted above. On the level of organizational structure, the answer as to what the final result of the cultural encounters will seem unequivocal. The end result will be an adjustment by the recipients, considering that we are talking about desired membership in a club. If there is no adjustment to the rules, then there will be no accession. The power relations are very clear: the EU sets

the rules from a superior position, the accession countries follow them from a subordinated position. On the level of institutional culture, cultural encounter is understood as an exchange between two cultural models, provisionally called “Western” and “Eastern.” The encounter can produce *mutual adaptation*, when the two models change while adapting to each other; *assimilation*, when one model is imposed upon the other; *total rejection*; and *specific cohabitation* or *hybridity*.² Here we use Pieterse’s definition of hybridization: “the ways to which forms become separated from existing practices and recombine with new forms in new practices” (Pieterse 2004, 64).

Hoping and Fearing SAPARD

Institutional design

The main document that framed the common design of SAPARD for all the pre-accession countries is the Council Regulation (EC) No. 1268/1999 of June 21, 1999 on *Community Support for pre-accession measures for agriculture and rural development in the applicant countries of Central and Eastern Europe in the pre-accession period*.

The main objectives of the Program are formulated in Article 1 in the following way:

- [establishing] the framework of community support for sustainable agriculture and rural development for the pre-accession period [for the eligible countries];
- contributing to the implementation of the *Acquis*... convening the CAP (Common Agricultural Policy) and related policies;
- solving priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the applicant countries.

In order to achieve these objectives, specific measures were proposed: 15 in the Regulation and, as a result of further amendments, a total of 21 by 2005, from among which priority had to be given to measures

² The encounter of Western and Eastern institutional models has been widely discussed, within the context of “Europeanization”—see T. Börzel and T. Risse (2000) or K. Featherstone and C. Radaelli (2003).

like market efficiency, quality, and health standards in compliance with the provisions on the protection of the environment. If conditions were met, the Multi-Annual Financing Agreements signed by the national governments of the accession countries and the EU would secure the resources. These agreements laid down the community management and controlled rules for the implementation of SAPARD for the whole period of the program, based on three general principles:

- full decentralization of program management from the EU to the national SAPARD agencies;
- financing arrangements based on differentiated appropriations;
- the application of the EAGGF Guarantee Section Clearance of Accounts procedure, including specific requirements for the monitoring committee operations concerning program management and evaluation as well as annual reporting of results.

From the point of view of the mandatory elements related to the new institutions that were to be established in the eligible countries, the following items can be identified:

- the individual SAPARD programs had to be based on an extended planning exercise;
- partnership principle, the inclusion of NGOs;
- formalization of procedures;
- transparency, constant updating of stakeholders;
- constant control, monitoring, and evaluation of program implementation;
- market orientation—meaning that the program must generate competition;
- environmental considerations.

It is obvious that SAPARD required a new type of decentralized and expanded management structure, in which financing, management, and control were within the remit of different agents; it also required an entirely new mechanism of decision-making. The model was ready-made, strictly observed, and thus *did not allow* hybridity. The institutional design is meant to ensure impartial decision-making, guaranteeing fair and effective procedures in favor of the selection of the best proj-

ects that prevent administrative abuse and favoritism. Therefore, in addition to the emerging new institutional structure as an immediate output, an even more important effect of the installation procedure could be hoped for in the long run, namely, a fundamental change in the culture of governance.

Administrative Cultures in Eastern Europe

Research methods

The country case studies are based on qualitative research, including the analysis of documents related to the implementation of the SAPARD program and semi-standardized interviews with officials from both sides. Two of the teams (Romania and Hungary) also used participatory observation. As seen in Table 7.1, foreigners were under-represented in the samples.

Table 7.1 Number of Interviews Conducted

Actors	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovenia
Domestic (51)	9	7	8	12	6	9
Foreign (12)	3	1	2	0	4	2
Total (63)	12	8	10	12	10	11

Weak points of Eastern European administrative cultures

The capabilities of the local staff members were reported as competent—matching, and sometimes even exceeding EU standards, or were judged at least by Westerners as “mixed.” Despite such positive judgments, the politics-driven fluctuation of local staff members, resulting in disruption of information as well as in the lack of stable partners to negotiate with, appeared in most case studies as a negative experience.

The EU delegates usually complained about the *limits of accuracy and the absence of clear alternatives* put on the discussion table, which would allow the partners to discuss the issues and then choose. Similar weaknesses regarding the capability of setting up priorities and then ranking them were reported from Romania where the first version of the SAPARD Plan consisted of fifteen priorities (this was reduced to seven during the negotiations).

I do think that there really was not any occasion when it was clearly said, we have this problem, we would like to have that, and such options are on the table, and we could do this and that and that... in such a case the Commission could have contributed, but if we did not see the options or the policy content, it was difficult to contribute in the discussion, said the head of EU delegation in Hungary.

The *weak flow of information* within a certain unit, horizontally as well as vertically, and toward the outside world (publicity) have also been mentioned. The prevalence of hierarchical structures is usually coupled with the *accumulation of power and responsibility*, with access to information on the top levels and its absence in the lower ranks. The *lack of trust* toward lower ranks, and an over-politicized operation of the whole administration system were singled out by EU delegates as their most embarrassing experiences: "The political level does not give sufficient power to the high-ranking civil servant level, or civil servants on their own go immediately to the political level."

The *lack of horizontal relations and teamwork* (both intra- and inter-ministerial) was also cited as an example of weakness by a French expert in Bulgaria and by a Dutch advisor in Hungary. A Polish respondent described it as follows:

Here [in Poland] basically people often don't have contact with each other. While in Ireland, this work was organized so that there were big groups of people, they worked in big teams, a lot of interaction took place. Among other things I liked what they call "flexible time," which meant adjustment of working hours to tasks.

A very similar experience was reported by a Hungarian staff member working in the Brussels administration.

Client-friendliness never belonged to the strengths of the Eastern Europe administrations. Here again, such issues came up in the interviews as the uneasy access to information and application packages, the lack of time for decision-making, finding service providers, or accomplishing the exercise, having clear and comprehensible instructions, appropriate marketing tools conveying information to the target groups, running assistance services, and so on. From these elements almost each one was identified, for instance, during the tendering process in Hungary. An overcomplicated application process, paranoia about corruption, and therefore the overinsurance of procedures, blocked smooth operations.

Negotiating

Experiences and interpretations

The subject and stakes of the SAPARD negotiations were twofold: (i) the creation of a *programming document called the SAPARD Plan*; and (ii) reaching agreement on the *institutional system* that was to frame the implementation process and provide a secure and transparent channel for spending the allocated SAPARD funds.

The SAPARD Plan had to comprise the development strategy of the beneficiary country and the measures/instruments through which strategic goals were to be achieved. An indicative table about the annual pace of spending by measures was an essential part of the plan. This was the easier task despite the fact that neither the donor (the European Commission) nor the beneficiary states had sufficient experience. On the one hand, rural development planning was also rather new in the old member states, but on the other the challenge was re-doubled by the fact that SAPARD was the first assistance program within which spending was to be managed by the beneficiary countries without the direct supervision of the EU delegations (embassies), as had been the case with the other two assistance programs, ISPA and PHARE.³

³ In the case of SAPARD, a division of the European Commission, the so-called STAR Committee, approved the program and the annual reports of the beneficiary country on the level of the European Union, and the monitoring committee supervised the progress of the program on national level. In the monitoring committees, EC delegates were members without voting rights.

This explains why the second task of negotiations, *the creation of the implementing institutions*, as well as the task of making them operational, was a much more difficult and time-consuming job than the planning exercise. The key institution that had to be set up was the SAPARD Agency, where the management of the tendering procedures, the selection of applications, and in an ideal case the payment arrangements were to be processed. None of the parties had the relevant experience regarding how to accomplish this task. This is why the EC allowed various formal solutions for the same content (the mandatory functions and principles), ranging from an agency built into the government (Bulgaria and Slovenia) to a semi-independent organization supervised by the Minister of Agriculture (Hungary). What hardly anybody could imagine was the size and complexity of the SAPARD Agency. As the Hungarian chief negotiator proclaimed in an interview:

[I]n the case of the accreditation of the SAPARD office, each party lacked the appropriate experience. I consider myself a clever man, but I simply didn't have the faintest idea about how, in the end, an office with a staff of 295 people could be established. The EU experts themselves kept mentioning only a 50-person staff.

We can detect both common and distinctive elements in the recollections of our respondents about the phase of negotiations. As to the *common traits*, their judgments were either neutral or negative in each country, though these turned to positive by the closing phase everywhere. As they say in the interviews, *a good working relationship* developed between the partners. The rough start was attributed to the unequal stance of the partners: the EU representatives possessed a superior position, pushing the local delegates in a subordinate one. However, explanations and stories depicting the negotiation-phase atmosphere were *different*. Most of the participants pointed to the lack of appropriate knowledge and negotiating skills on the side of recipients, incurring a one-way information flow, and vast imbalances when the rules of the games were determined. "We were accepting everything coming from the EU without any attempt to question or negotiate"—this is how the Romanian integration councilor described the first stage of the talks. He labeled the relationship between the negotiating parties as one between an "adult" and a "child" that later assumed

an “adult/adult” pattern. Similar metaphors emerged in the Polish interviews (the master and the apprentice, the rich and the poor relative). A resigned acceptance of unequal positions also transpires from the Hungarian study as revealed by the chief negotiator of the Hungarian delegation:

They did not offend us, they were never rude, but the relations and positions themselves were unequal, and sometimes it was us who talked rubbish since we did not know the legal provisions or one another.

The extent to which unequal positions frustrated the recipients depended on the personal and sociological features of the individuals concerned such as their sex, age, and hierarchical rank, their language and negotiating skills, and so on, on the one hand, and the subject/stage/stake of negotiations on the other. When time constraints did not urge consensus, when there was no particularly sensitive issue on the table when recipients accepted their subordinate position, then the atmosphere was usually constructive. Otherwise, conflicts broke out easily.

Despite the uneasy start, the local respondents characterized their encounters with EU officials as *learning*. The EU representatives were teaching certain rules, and the local actors were eager to learn the lessons quickly and get high marks. This was the most prominent in the Slovenian case as explained by a Slovene respondent:

[Our] people are extremely good learners who are not only willing to accept new knowledge but have actually accepted it; on this basis, extremely useful documents have been produced.

A Bulgarian employee alluded to the fact that learning could be mutual to some extent:

I have learned a lot—a different view of the world, lots of new experience, and a way of looking at the management of the directorate. What the foreigners have learned from us is that they need to be more flexible in their work, because there are things that cannot be governed by rules.

But the employee adds that the final result has to be adaptation: “Our culture must adapt to the Western one. This takes time, but simply must happen.”

Habitual Differences among Accession Countries

Before going further, we will introduce three subgroups of the countries concerned, along with their “*pre-accession habits*.” For that we are going to use the attitudes of the participants during the negotiation phase as illustrations for the grouping. The distinctions below reflect tendencies rather than deep fault lines between the groups.

The members of the first group had nothing to lose, therefore they were the most eager to accept the EU’s suggestions: *Bulgaria* and *Romania* belong to this group called the “*eagers*.” The second group, called the “*eminent*s,” is made up of the two “more westernized” small countries, the *Czech Republic* and *Slovenia*. Here, the whole process was rather easygoing, particularly in the case of the Czechs. Finally, the third group of countries includes the two “*troublemakers*,” *Hungary* and *Poland*, countries where the subject targeted by SAPARD (agriculture and rural) affairs has been a very sensitive issue due to the traditional importance of the sector and the political strength of its representatives. It might be by chance, but our interviews suggest that from among the six countries it was Hungary and Poland where pre-socialist “snobbish” attitudes⁴ translated into a considerable amount of pride and honor among highly-ranked members of state administration.

We will start with the most eager countries, Bulgaria and Romania. Bulgaria was the first where the troublesome accreditation process of the SAPARD agency was accomplished early, in the middle of 2001. The relatively quick success can be attributed to the insertion of SAPARD institutions in the government, under the tight control of the minister and his/her appointed “arms.”⁵ This solution provided a convincing guarantee for the European Commission concerning the spending of SAPARD money, while the Bulgarian government officials were also satisfied with their overwhelming influence over the European resources. Conflicts and disagreements between the providers

⁴ See Erdei (1980, 306–307).

⁵ The minister chaired the Management Board of the Agricultural State Fund and appointed four members of the Board out of eight, therefore majority votes were easily taken; the deputy minister chaired the Monitoring Committee, whilst the Head of the Agricultural State Fund, who was also the Executive Director of the SAPARD Agency, was appointed by the government.

and recipients were not reported and only one such case was discussed in the Romanian context. In the “eager” countries, it was not only the smooth acceptance of the EU suggestions that expressed an almost unconditional willingness to initiate SAPARD. A Romanian ex-minister remembers:

EU officials were impressed by the fact that each time they came to Romania they were received by ministers. This wasn’t the case in other member states. As a minister, I should not have had discussions with a technical EU expert on issues of procedures.

A similar experience was reported by a Dutch advisor in Hungary:

We were a bit taken by surprise about the strength of hierarchy in the Hungarian context. I mean that we were an executive service in the Netherlands and we weren’t at the top level of that service either, and still we had easy access to top-level officials in Hungary. We were, in a sense, honorably impressed. But on the other hand they gave attention to the wrong problems, the wrong persons. They shouldn’t have bothered with us. They should have focused on much more abstract tasks and political decision-making.⁶

The Eastern partners’ weaknesses in raising pointed discussions, coming up with initiatives, expressing their disagreement, or making critical remarks over the issues on table was raised in a number of interviews with foreigners who attributed these shortcomings to post-communist administrative culture. When the issue of “pride and honor” emerged in the Bulgarian and Romanian context, it reflected a commonly shared feeling of success for being part of the SAPARD system, which was declared “EU conforming” by the European Commission. However, the self-esteem of (usually) the younger members of the Eastern European “Eurocracy” sometimes turns into arrogant negligence toward the “non-Europeanized” majority of the national administration and the general public.

⁶ This kind of imbalance also had to do with the ministry structures lacking corresponding divisions headed by skilled personnel in the countries concerned. “Now when an EU public servant comes to Romania s/he rarely meets the minister, because we have intermediary positions... and smaller inferiority complexes,” said a Romanian respondent.

As regards the second group of the “eminent” countries, the Czech Republic and Slovenia, their attitudes can be characterized as *pragmatic* accompanied by a lot of *self-confidence*. These fairly westernized small Central European countries approached the task of SAPARD negotiations in an utterly different manner than their “eager” counterparts.

In the Czech Republic, without too much fuss, one single (female) senior officer started to work on SAPARD as early as 1998. Later on she was joined by a small group of increasingly enthusiastic officials. Slovenians dared to follow their own approach when they contracted experts outside the government for leading the negotiating team and elaborating the SAPARD Plan. This explains why, according to some respondents, the Slovenian plan was a genuine creature, and not just along EU dictates, as was the case elsewhere.

A high-level official in Slovenia contended that:

SAPARD was grounded on the previous experiences with other EU programs and projects. Since Slovenia was in the preparatory phase for negotiations, the experts were well acquainted with European legislation and were not surprised by SAPARD. Because the expert team was so well prepared, the differences in approaches to the pre-accession instrument of SAPARD were anticipated in advance.

According to some chief participants of negotiations, Slovenians primarily followed the path of Austria.

Neither Slovenian nor Czech officials reported on the superiority of EU partners. As far as the programming exercise was concerned, they both felt to have considerable space for maneuvering, and what is more, the Czech Republic also followed its own track in implementation. Measures aimed at non-agricultural investments were taken by the Ministry of Regional Development, the Ministry of Agriculture was responsible for the overall program and the rest of the measures targeting the agriculture and food industry, whilst the Ministry of Finance was in charge of financial management of SAPARD as a whole.

“Hard and cumbrous negotiations in the European Commission and in [the Czech] Senate and Parliament,” were reported by one of the Czech respondents. This, however, was considered natural and therefore acceptable. When institution building was at stake, the local personnel did not insist on idiosyncratic solutions:

When we started our work at the agency, we were aware that we would have to take over the EU demands. In the beginning, there weren't enough people and it was impossible to finish the work on time but in the end we finished our work with honor.

Pragmatism seems to be a key that contributed to success. "Czechs are pragmatic and that was a surprise. I thought they would be more complicated," asserted the chief EU negotiator.

Two further factors can be highlighted regarding these success stories: (i) the share of agriculture in the national economy was relatively small in these countries⁷ and (ii) the personal traits of the negotiating partners. The chief EU officer negotiating the Czech, Slovenian, Slovak, and Maltese SAPARD Plans and his colleagues were depicted by one of the Czech respondents as "honest, open, and helpful. I have to say we were lucky with our partners, with the officers. It was a nice experience, a perfect and quick cooperation on a working level."

Finally, let us see the third group of the so-called trouble-makers, the Poles and Hungarians. After a leading EU representative recommended to the Hungarians, "I would say a pinch of pragmatism would help," some of the Hungarian officials confessed that pragmatism was not their strong point. Moreover, they were predisposed to a certain kind of "uneasiness."

Hungary's chief negotiator commented:

We were rather uneasy. Czechs, for example, were told how to organize the SAPARD office and they did it accordingly. We always had doubts. Why should we do it that way? Why shouldn't we follow another path that's more suitable for us? asked the chief negotiator of Hungary.

"You're considered to be problematic in DG Agriculture. You and the Poles... Of course because you two are the biggest," said a Brussels desk officer. This explains why both providers and recipients were somewhat frustrated during the talks. Farmers from the two countries were regarded as potential competitors of the producers in the member states. Hence, suspicion poisoned the atmosphere of the negotiations.

⁷"We are small, nobody was threatened by us" (Head of the EU Department, Ministry of Agriculture, Slovenia).

A Polish official remembered:

I had a feeling that everything that could result in the improvement of production would not be accepted. There was something like a fear that we might become too competitive. Everything concerning infrastructure was most welcome, but everything concerning farmers themselves was a threat.

Or let us take a Hungarian example, when an EU official noted:

The EU officials felt that everything was clear and simple, but the Hungarian party, for some unknown reason, simply sabotaged the accomplishment of the requirements needed for accreditation. The Hungarian party felt that the EU officials wanted to play hardball with them, that they were malevolent... Both parties had some partial truth.

“Pride and honor” in the Hungarian and Polish context were seen as offended values. The lack of equal footing during the negotiations was regarded as a fact that recipients could or could not accept depending on their habits and temper. Long quotations illustrate how Polish and Hungarian negotiators felt humiliated or were openly oppressed by some European Commission staff members.

A Polish official recalls his frustration:

Those were the last days before handing the Program over in its final shape. We were spending nights in the Ministry [of Agriculture] and suddenly we received, by fax, some pages cut from the project, with huge stanzas of text marked. And a memo attached to it from a well-wisher: “If you don’t agree to the changes, there is no chance for the STAR Committee to approve the project.” The changes were fundamental. What were we supposed to do? We made those changes. We agreed because of the internal pressure.

The chief negotiator of the Hungarian delegation reports:

When we wrote up the Operational Manual of the SAPARD Agency, as well as the procedure of monitoring, in two gross volumes, each of them several hundreds of pages, we handed it out to the Brussels officials. After an EU official took one of them and thumbed through it for a while, he said: “OK, this can be thrown into the Danube. A new one has to be written up.” There were sixty people sitting there, petrified:

the existence of those two volumes implied the work of several dozens of people not to mention the translators.

The conflict-ridden atmosphere did not help the emergence of a good working relationship between the partners. Hungary was the last country where the SAPARD Agency was accredited and tried to become operational with its 2,000-page manual (which was obviously impossible and generated further delay in the implementation phase).⁸ All in all, by the end of 2003, when Czech SAPARD spending reached 115 percent, Poland and Hungary made the least progress from among the beneficiary countries with a spending rate of 43 and 33 percent, respectively (Wilkinson 2004, 8).

The weak start was followed by a gradual improvement everywhere. This can be attributed to the stabilization of the core employees on both sides: Leading negotiators and desk officers got to know each other, and beyond the official meetings and back-office work, they established informal relationships. On this basis, mutual trust developed between the partners. According to a former minister of Romania, a curve can be drawn from a complete lack of autonomous steps taken by the recipient country to a proactive stage in which—having adopted EU rules—the recipient country takes initiatives/risks and then has its actions accepted by the European Commission. Similar “progress reports” can be identified in the case studies of the other countries.

The Implementation Phase

The beneficiary countries had to make great efforts right at the beginning of the implementation phase if they did not want to lose the grant. But the “product,” that is, the institutions and their operational rules, was far too complicated to put into practice. Even in the “*eminent*” Czech Republic, 40 percent of applications were refused (Hudečková and Lošťák 2003, 553); in Hungary, 100 percent of the first round project proposals failed to match the eligibility criteria. To speed up the procedures and increase the absorption capacities, eligibility rules

⁸ Of course, it was not only the atmosphere but also bad leadership and inner political conflicts that influenced the late start of the Hungarian SAPARD Agency.

and thresholds of funding were revised in each country, and only then—following a lengthy procedure—was the permission of the EC STAR Committee granted.

The accreditation process influenced the realization of the SAPARD Plan to a large extent. In most of the countries, only some measures were accredited,⁹ implying that the original designs were unsatisfactory.¹⁰ No complaints appear in the interviews, however, about the incomplete fulfillment of development plans. On the contrary, the implantation of multi-year development plans as important tools of development policies were considered the most important achievements of SAPARD, particularly in the “eager” southern countries.

SAPARD's centralized and decentralized models

In this chapter we will analyze SAPARD's *degree of decentralization* in the recipient countries. We consider decentralization as a signal of a relatively high degree of Europeanization of administrative culture on the one hand, and a tool of a multi-layered control over the procedures on the other.

The most important new institutions, the SAPARD agencies, were established either as independent institutions, supervised by the minister of agriculture, or as divisions of the Ministry of Agriculture. In the latter case, each of the ministry's departments were divided into two sections, turning one of them into an independent SAPARD Agency, or the country accredited an agency that was to operate within the Ministry. Either way, the SAPARD Agency remained part of the Ministry of Agriculture in each country, headed by a director who was appointed by the minister or the prime minister.

As far as the regional branches of the SAPARD agencies are concerned, regional branches were developed everywhere, but the degree of centralization/decentralization of functions—the competence of regional offices, the selection and designation procedures, monitoring and control—varied. In the Czech Republic, Poland, and Hungary, the procedures were fairly decentralized.

⁹ Non-accredited measures were not tendered.

¹⁰ For example, in Hungary the measure aimed at promoting producers' groups was not accredited at all. This implies that the strategic goal that was to be achieved by this measure, namely the promotion of producers' joint appearance on markets, was unfulfilled.

However, over-bureaucratization deriving from the program's over-insurance program mechanisms were present everywhere. Furthermore, this was the field where hybridization took place along the individual patterns of administrative culture in the respective countries. As a Romanian respondent put it:

In certain aspects it's a hybrid, as it combines the worst from both sides. The idea is good, the budgets are good, the concept is OK, but the application process is so complicated (a project application document includes more than 400 pages). We already have complicated procedures from the Brussels side, plus, here the Romanian side added procedures that were even more complicated.

His conclusion was that "SAPARD is a European product by creation and a Romanian product by implementation."

However, despite over-insuring its control mechanisms, corruption scandals could not be avoided. Rumors occurred everywhere, but scandals broke out—unsurprisingly—in countries where political favoritism and corruption were parts of everyday life, both at the grass-roots and upper levels, and where decision-making was highly centralized like in Romania and Bulgaria.

In these countries, despite the desire to quickly adjust to the West, planting an administrative culture of transparency, of which SAPARD was supposed to be a conveyor, did not succeed. Here, the SAPARD institutions remained overwhelmed by the excess power of the center. Decision-making in Bulgaria was not only fully centralized like in Romania, but all bodies were either controlled by the minister himself or by a high-ranking officer appointed by him or were part of the ministerial hierarchy subordinated to him.¹¹ Irrespective of the adopted strict procedural rules, constant monitoring and control, old administrative cultures associated with centralized and uncontrolled power produced a hybrid, in which the possibility of abuse was hidden behind the façade of complicated procedures.

¹¹ The SAPARD Management Board in Bulgaria was chaired by the minister who—via the appointed members of the Board—had a majority in decision-making. The Monitoring Committee was chaired by a deputy minister of agriculture. The work of the Monitoring Committee was supported by a secretariat from the ministry. The Selection Committee was part of the SAPARD Agency and was appointed by the executive director of the SAPARD Agency (who is appointed by the government and s/he is also the head of the state fund of agriculture).

The new SAPARD institutions could develop operational and transparent mechanisms in those countries where the norms of the recipient administrative cultures were closer to those of the donors like in Slovenia, and where decision-making was not fully centralized like in Poland, the Czech Republic, and Hungary. What matters here most is not the set of formalized procedures alone, but the establishment of institutional structures that could guarantee mutual control between different decision-making bodies as well as adequate forms of efficient monitoring.

Success and Limitations of Implementation

New institutional structures

SAPARD was ultimately declared successful in all of the countries on the basis of two criteria: the rate of spending (100 percent or more) on the one hand, and the implantation of a new “Europeanized” institution on the other. Another success indicator could have been the extent to which SAPARD experiences were used following the accession. This issue was raised in the Hungarian, Czech, and Polish case studies and/or interviews. From this perspective, the Polish case seems to be the most successful. Czech and Hungarian respondents were not content because—according to them—SAPARD experiences were not used sufficiently when the post-accession structures were being built. The Poles were considered to be tough and successful negotiators in the last rounds of accession. However, their post-accession success had probably less to do with SAPARD and more to do with a legitimate land registry, one of the advantages of the family farming system preserved under communism that allowed a smooth introduction of direct payments¹² (which was not part of SAPARD at all). Hungary failed the test once again because of the delays in setting up a reliable land registry and reporting system. Road blockades, massive demonstrations, and finally the minister’s removal from office were due consequences of the failed preparatory exercise.

¹² The vast majority of CAP goes to direct payments to farmers on the basis of the size of land they cultivate.

Adopting western administrative cultures in Eastern Europe

Despite conflicts and shortcomings, almost all the respondents evaluated SAPARD as successful in terms of *changing the culture of administration*. In their view, the program's greatest success resided in the fact that it made the recipient institutions adapt to EU requirements concerning the absorption of structural funds and, more generally, to the spirit of European administrative culture.

Some of the case studies—mainly those in Bulgaria and Romania—made distinctions between the old members of the state administration (being inflexible, slow, hierarchically-thinking) and the new ones being part of the SAPARD process. However, both cases, along with the Hungarian example, suggest that the new structures operated either like *islands* within the sea of the old administrative culture or were built like *superstructures*, far from being fully adopted.

Some bottlenecks began to disappear, such as the inappropriate segmentation of tasks and the narrow application of information technologies. Yet, a change in working habits, internalizing the demands of high-quality work, the exclusion of politics from the realm of administration, and the selection of civil servants according to professional merits were among the tasks left for the future.

If we try to label the countries using Pieterse's terms, *examples of mutual adaptation* could hardly be identified due to the unequal positions of the provider and recipient institutions. *Full rejection* was nonexistent, given that the establishment of a new Europeanized institution was a mandatory exercise for the accession countries. In such a situation, a smooth adaptation on the basis of *fully interiorized norms of the donor culture (assimilation on the level of norms)* could work out at best. This is how the Czech and Slovenian cases can be interpreted. In the Polish, Romanian, and Bulgarian case studies¹³ the new institutions were described as *hybrids* and this is the group to which Hungary belongs as well. Nevertheless, the different paths chosen by the Czech Republic and Slovenia along the decentralization/centralization angle indicate that a *specific cohabitation* of the elements of the domestic and foreign administrative cultures also showed up in the new institutions.

¹³ According to the author of the Polish case study, Cezary Trutkovski, SAPARD "seems to be an interesting hybrid, which emerged from the frames sketched out by the EU and filled in by the Polish side."

Conclusions

The comparison of the six countries revealed marked differences. Whilst formally the guarantees of safe and transparent operation were laid down, the SAPARD project did not materialize everywhere in the same way. In those countries where the institutional structure could ensure mutual control of the different decision-making bodies as well as adequate forms of monitoring, and/or where norms of the recipient country were already Europeanized to a relatively high degree, the adaptation process was smoother. The norms of EU administrative culture were fully internalized by the most advanced and, at the same time, pragmatic countries, the Czech Republic and Slovenia. This was coupled with a remarkable decentralization of the decision-making chain in the Czech Republic. This approach was also adopted by the “troublemakers,” Hungary and Poland. The decentralized track of institution-building these countries embarked on probably impacted on the smooth operation of the program at regional levels and lessened the risk of misusing funds. In contrast to these experiences, in Bulgaria and Romania, the regional branches of SAPARD agencies fulfilled only technical roles. The concentration of power went to extremes in Bulgaria. The vast corruption scandals in this country illustrate that despite a strong desire for full and quick adjustment to Western norms, *the adaptation failed where these norms did not have adequate institutional coverage.*

“Europeanization” is highly path-dependent. The deeply-rooted cultural traits of the recipient administrative cultures could not be overcome overnight and generate various patterns of cohabitation. More advanced recipient countries managed to develop islands in the sea within their old administration, introducing fairly decentralized vertical chains, whilst the less advanced countries opted for building “superstructures” instead. These “superstructures,” regardless of the over-insured control mechanisms, proved to be less resistant to corruption and political favoritism.

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Cloning or Hybridization?

SAPARD in Romania

Florian Nițu

Introduction

Europeanization, understood both in terms of process and outcome, is a complex phenomenon manifested at many levels, following very different patterns of interaction and “hybridization” (Ladrech 1994, Börzel and Risse 2003, Goetz 2001). It can be controlled, deliberate, planned, and top-down; or conversely, incremental, organic, and spontaneous. It can lead to both radical and superficial changes, it can be protracted or efficient, or more likely, it can incorporate all these features. This case study will analyze the SAPARD program (Special Accession Program for Agriculture and Rural Development) with an interest in exploring the conditions that made SAPARD a “special and successful” project within the Romanian institutional environment. As a result of an intense process of cultural exchange and negotiation between the two actors, SAPARD became a structure of integration, incorporating characteristics of both sides. Within the larger landscape of Europeanization, SAPARD is a planned and controlled hybridization process, “re-orienting the direction and shape of politics to the extent that EC political and economic dynamics become part of the organizational logic of national politics and policy making” (Ladrech 1994, 69).

SAPARD in Romania provided an extensive opportunity for interaction between individual Western and Eastern actors, institutions, norms, regulations, standards, and cultural habits. As a pre-accession program, it represented an adaptive effort made by Romanian actors in order to create the political, legal, institutional, and administrative systems needed for its appropriate implementation. SAPARD presented multiple challenges: a political challenge (preparation for accession to European Union); an economic challenge (supporting the development of rural Romania and reducing the difference between rural and urban areas); an institutional challenge (creating institutional arrangements for the proper implementation of the program); and a cultural

challenge (promoting rural entrepreneurship and reforming the administrative culture of public institutions). Thus, SAPARD can be perceived as a complex and multifaceted program.

Our approach to this complexity of challenges builds on a larger social exchange theory based on several schools of thoughts. Anthropological concepts like acculturation, cultural diffusion, assimilation, and hybridization, along with other more controversial concepts like cultural imperialism and colonization (used to criticize the process of the European extension and Europeanization), are very useful in understanding the cultural compatibilities and disparities between the actors involved (Mihăilescu 2006). From this perspective, SAPARD can be described as a “contact/hybridization zone” between East and West, as a zone where exchanges between the two sides were forced to take place at a higher intensity and in a quasi-predefined form (the official negotiation processes). As such, SAPARD represents a micro-system where the Europeanization process can be understood in both its blueprint form and its natural patterns of interaction.

The public policy approach, with its focus on the formulation, development, implementation, and evaluation of policy programs, represents another framework worth examining. Out of the many theories of policy formulation, we will elaborate here on two main models: the policy-diffusion model and the advocacy coalition model (Sabatier 1999). As SAPARD is, by origin, an EU program, disseminated in all Eastern European countries on the road to EU accession, the dissemination and diffusion model seems to be an appropriate one. This approach considers Europeanization as a transfer process where policy programs emerging at EU level are transplanted to the accession countries (Ladrech 1994). This perspective raises the issues of transfer determinants, imitation, innovation diffusion, and transfer barriers as key topics to be explored. The advocacy coalition model also builds on social exchange theory and views policy development primarily as a result of interaction and negotiation between various actors.

The international assistance and development approach, extensively used to critically assess developmental intervention conducted by international agencies in less developed countries, provides another useful framework. Its focus on assistance, capacity-building, institutional development, and cultural sensitivity demands consideration. This approach, traditionally used to explore the North-South dynamic, due to its focus on the developmental actor (the EU, in our case),

offers an instrumental perspective and raises the traditional issues of power relations, imposed vs. voluntary development, legitimacy, and sustainability of intervention.

Based on such considerations, this paper will explore the following main issues:

- the degree to which SAPARD is a hybrid outcome,
- the degree to which SAPARD is a successful program,
- the determinants of success and failure, and
- the patterns of interaction between the EU and Romania.

The above issues were studied by means of ten in-depth interviews with key stakeholders involved in the SAPARD Agency, the Ministry of Agriculture and Rural Development, the EU delegation, and with European consultants providing technical assistance for the development and implementation of SAPARD.

SAPARD as a Successful Hybrid of East–West Encounters

A key aspect that makes SAPARD a remarkable program is the strong social belief in its distinctiveness and success. Its institutional framework was highly appreciated by most Romanian and EU actors. The SAPARD Agency is recognized as being the first Romanian institution compatible with European standards and accredited by European audit bodies. “The SAPARD Agency is definitely a good product,” stated a representative of SAPARD, while a member of the EU delegation affirmed that “the SAPARD agency works better than most of the Romanian institutions.” In comparison to other institutions (the interviews focused primarily on differences between the SAPARD Agency and the Ministry of Agriculture), the Agency is perceived as more open, transparent, and client-oriented, also more task-oriented and less procedure-oriented, in addition to being staffed with better-trained individuals. Furthermore, SAPARD is viewed as having clearer internal procedures, a better and more “modern” management style, better teamwork, and more importantly, it is an organization with an institutionalized practice of self-evaluation and self-improvement. Although the superiority of the SAPARD Agency is uncontested, several modifying comments are warranted:

- SAPARD is generally appreciated in terms of institutional and administrative effectiveness. Here, we can make an important distinction between procedural effectiveness (which is uncontested) and goal achievement (which is debatable).
- When talking about effectiveness in goal achievement (like developing the rural economy), success is difficult to demonstrate. To a certain extent, it can be argued that SAPARD failed to support rural entrepreneurs (according to a representative of the Ministry of Agriculture, SAPARD is not dedicated to the average farmer but to the business people and companies in the agriculture and food industry). However, it did make a significant contribution in influencing the localization of financial investments (encouraging urban entrepreneurs to bring their business to rural areas or to urban peripheries).
- Very often, SAPARD's success is described in terms of "absorption effectiveness," meaning the degree to which the program used the funds provided by the EU in an accountable way, though not necessarily in an effective one. However, absorption effectiveness can be considered a characteristic of procedural effectiveness, as it is related primarily to indicators such as the time needed to evaluate and decide on financing a fund request.

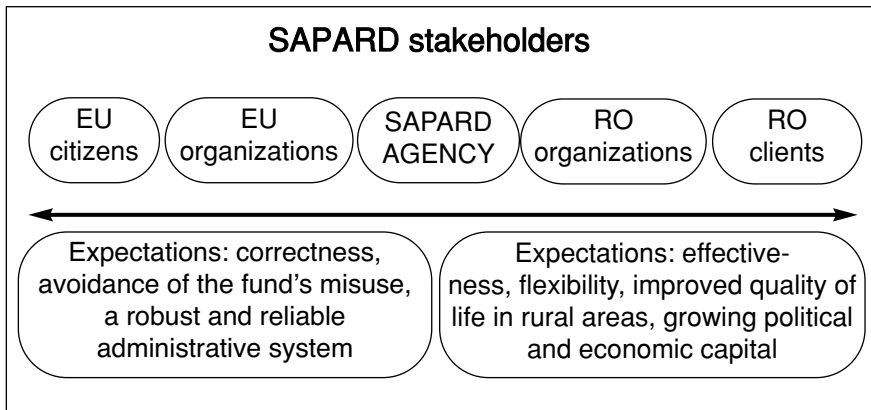
Debating SAPARD's effectiveness raised an additional and important issue: the very goal of SAPARD. As in any organization, we can easily talk about formal or declared goals and latent or hidden goals. We can talk about multiple goals and different hierarchies of the goals as perceived by different stakeholders. While a stakeholder analysis is useful in mapping the SAPARD environment, and highlights the different roles, power relations, coalitions, expectations, and interaction patterns, the high number of stakeholders involved can only complicate the analysis. We can identify two major stakeholder categories:

- EU stakeholders: public EU organizations (DG Agro, the European Commission, the EC delegation in Romania), public organizations of EU member states (national governments providing assistance to Romania), private consultancy companies (for profit or non-profit organizations providing technical assistance for the development and implementation of SAPARD), and European citizens (the ultimate providers of financial support).

- Romanian stakeholders: the SAPARD Agency, the Ministry of Agriculture and Rural Development, the Ministry of Finance, and other ministries with a direct interest in SAPARD priorities (for example, the Ministry of Environment was involved with the construction of the agro-environmental measures implemented by SAPARD, while the Ministry of Administration was interested in the infrastructure projects), the government of Romania (negotiating with the EU bodies), political parties (interested in maximizing their political influence on how SAPARD functions), and the ultimate clients of SAPARD: rural farmers and entrepreneurs.

Although simplified, the picture below highlights the main expectations of the two groups of stakeholders:

Table 8.1. SAPARD Stakeholders



In general terms, SAPARD had two main goals according to the expectations raised by the stakeholders involved:

- To create an effective, reliable, and accountable institutional system capable of administering EU funds correctly and transparently (especially the future EU structural funds). This challenge is recognized primarily by EU actors, who ranked it as a top priority. From this perspective: "The SAPARD Program is not primarily about solving agricultural problems, but about building institutions which are able to deal with these issues, over the long term in an effective, transparent, and accountable manner. SAPARD is

- a test program and its main role is to set up the institutional arrangements that will guarantee the correctitude of the administration of future structural funds,” said an interviewed EU expert.
- To contribute to the development of rural economy. This challenge is recognized primarily by Romanian actors, who ranked it as a top priority.

The goal-assessment indicates the first major gap between the two groups. The administrative robustness (which implies investing in control mechanisms) is negatively impacting on the program’s effectiveness (which is based on flexibility). Because the Romanian administrative system is perceived by all actors as politicized and unreliable, paying attention to the institutional robustness in order to avoid abusive use of EU funds emerged as a natural priority despite its negative impact on overall effectiveness.

Table 8.2. Perceived Success of Priorities

Priority	EU actors	RO actors	Level of perceived success
Develop reliable institutional systems	1 st priority	2 nd priority	High
Develop the Romanian rural economy	2 nd priority	1 st priority	Low to average

The EU stakeholders had the leverage to make theirs the top priority and focus the energies and resources of the two sides on accomplishing the administrative aim. SAPARD can be described as a journey toward institutional maturity but not as one toward rural development. In this context, SAPARD is a mediating institution between East and West, an institution “forced” to negotiate and accommodate two different sets of aims and expectations. It needed to be flexible and look for ways to simplify funding procedures in order to allow its clients to easily access and use the funds, but, concurrently, it had to maximize controlling procedures in order to satisfy the need of correctness and fairness as expressed by the European stakeholders.

As a hybrid, SAPARD stands in a “no-man’s land” with no clear sense of belonging: it is not fully Romanian and not fully European. This trait brings both positive effects (a strong sense of “*esprit de corps*” among the SAPARD employees, a feeling of distinctiveness, an enhanced accountability system—but also an increased legitimization—being related to EU structures), and one’s effects (difficulties in finding a good fit within the Romanian administrative system, and over-bureaucratization).

Imbalanced Input

In understanding SAPARD as a product of East–West exchange, two important questions emerge: What are the roles of the two sides and how important is their input? The EU actors played the following roles:

- Initiator—SAPARD is an initiative emerging from the EU, and proposed to national authorities. This allows us to view it as an “imported” and adapted program.
- Sponsor or investor—the funds used to set up and implement the SAPARD program are provided primarily by the EU.
- Mentor and educator—this role includes technical and know-how support provided by EU experts.
- Monitoring and control—the EU exercises control over several key aspects of SAPARD: budget, working principles, organizational procedures, working standards, and Romanian input.

Of these, funding and implementation appear to be the most important. This reflects an unbalanced power structure, with the EU controlling and influencing the development and implementation of SAPARD. The following are the EU’s spheres of power:

- *Financial power*: It refers to the ultimate control of the financial resources administrated through SAPARD. Most of the funds are EU funds. “Who gives the money has the right to decide and control how and for what the funds are used,” said a ministry representative.
- *Decision power*: Although SAPARD is a decentralized program (the responsibility for the budget administration belongs to the Romanian side), the EU keeps an important decision-making role,

shaping the implementation of the program. As one representative of the SAPARD agency stated, “Almost every change and every new activity needs to be approved by the European Union.” The power of decision-making was expressed (a) directly through “EU directives” and (b) indirectly through evaluation and approval/rejection of decisions made by the Romanian side.

- *Normative power*: It refers to the role the two sides played in setting up rules, procedures, standards, and so on that regulate the program. Most of the rules, regulations, and standards emerged from the EU level.
- *Power of monitoring and control*: According to the cooperation protocols, the EU has the right to monitor and control the implementation of the SAPARD program. As an interviewee asserted, “A specific pattern, that is not valid for member states, is the very tight supervision of how the system functions. You do not supervise a member state, but here they (the EU) wanted to make sure that we keep to the system and do not fall back to old habits.”
- *Power of negotiation*: It refers to the expertise of the two sides in the negotiation processes. European Union officials gained experience in this field through direct negotiations with other member states implementing the same program, while the Romanian officials’ only experience was what they gained during their own negotiation with the EU. For instance, a representative of the Romanian EU delegation said:

To be effective, the Ministry of Agriculture needs to develop a team of experts to negotiate. The Brussels officials have experience because they have already negotiated with several other countries. Our officials do not have this experience. All negotiations are based on statistical data that we do not have. If you do not have statistical data or your statistical data are not reliable, you have a limited power to negotiate with the European Commission. You have no arguments to back up your requests.

- *Power of expertise*: It refers to the technical expertise of the two sides in identifying and elaborating appropriate solutions. This was, for instance, the case with the Agro Environment measure. Before SAPARD, Romania never had such a policy and lacked the expertise to design such. The lack of expertise in working out complex rural development policies and setting up and adminis-

tering institutions compatible with EU standards weakened the position of the Romanian partner.

- *Referent power*: It denotes the social perception regarding the status of the persons/institutions involved. Its source is a deep admiration and strong belief in the superiority of Europe. A respondent from the ministry put it this way:

When we started negotiations for SAPARD, we were used to keep our head down. We did not comment. If we wanted to join the EU, we needed to accept everything without question. In the beginning, we saw everything coming from Brussels as though coming from God. We accepted and applied everything without comment.

Even if the formal power relations obviously favor the EU, their expression on the interpersonal level is not so obvious. This is mostly due to the working style promoted by EU officials and experts. According to the Romanian stakeholders, their counterparts were characterized by:

- A supportive attitude: “They (the EU actors) came to support ‘let’s see what we can do’ and not to control (what you have done wrong),” said an official from the ministry.
- A willingness to understand the situation in Romania: “They are interested in listening and understanding the big picture before making any judgments,” contended our respondent from the SAPARD agency.
- An appreciative attitude: “They all do not make dramatic judgments, even when the situation is bad. Always, they look for positive things,” stated a representative of the ministry.

Despite the fact that the power relations were exercised in a gentle and sensible manner, their manifestation was permanent and consistent. We can identify three types of control:

Table 8.3. EU Controlling Patterns

Direct control	Mixed control	Indirect control
EU requests	Approval/validation of	Education and support
EU demands	Romanian proposals	Technical assistance
Imposing	Audit and evaluation	Socialization
Accreditation		

Determinants of Success and Failure

If SAPARD was indeed a successful policy and administrative structure, like none other in Romania, then understanding the conditions contributing to its success is highly important. According to our interviewees, these factors played a vital role:

- The close control exercised by the EU was of foremost importance. The EU operated several control mechanisms (direct demands, close supervision, technical assistance) in order to ensure that the final outcome complied with EU standards. This power of control was preserved from the very beginning, when the working relations between the two sides were agreed on the official negotiation protocols. *Controlling rights* were augmented by *controlling opportunities* and the *desire and readiness to control*. The European control went in two different directions: (a) “imposing” certain features of SAPARD and (b) protecting it from undesired and debilitating national pressures, such as appointing people based on their political affiliation.
- The permeability of the Romanian side was also a vital factor. The power of EU actors was accompanied by a high compliance of the Romanian actors who expressed their readiness and desire to adopt most of the requirements made by the other side. This readiness was also facilitated by the limited time frame. As the absorption rate was an important criterion for assessing effectiveness, time pressure to shorten the official approval by the EU required that Romanian actors relied heavily on EU input, with limited adjustments.
- The high public visibility of SAPARD was also crucial. The media coverage of SAPARD was far greater in comparison with other developmental programs in Romania, and this public exposure played an important role in developing an accountable working culture. The high public interest also had a direct impact on the dedication of the Romanian participants, as visibility generated a strong sense of significance (“We are doing something of national importance,” stated a SAPARD employee).
- Setting SAPARD as a completely new institution subordinated to, but not incorporated in, other Romanian public structures allowed SAPARD to avoid the “chronic illness” of Romanian bureaucracy.

As one of our respondents put it, “It’s easier to create a completely new structure instead of changing the existing one.” This also gave SAPARD a different organizational identity, a European identity that had a large impact on the perceived sense of legitimacy.

- The support provided by the EU—both financial and technical—working conditions (new furniture, new equipment), the recruitment of highly skilled employees, the dedication and motivation of staff (who were better paid than public servants from other public organizations). According to a representative of the ministry, “SAPARD evolved faster than other institutions because it was a national priority and there was a lot of investment in infrastructure, training, and personnel.”

In terms of weaknesses, one key characteristic mentioned by all interviewees was *over-bureaucratization*. Because SAPARD needed to comply with two different bureaucratic requirements (European and Romanian), complicated application procedures and time-consuming evaluation procedures were the results. Two major causes of failure were highlighted by our research:

- The institutional distance between the Romanian and European administrative systems: organizations in EU countries that control EU funds did not have an equivalent in Romania. In order to comply with EU standards and requirements, the Romanian government could: (i) create the missing structures; (ii) reform and change the existing structures; and (iii) combine the functions of two or more existing institutions. In terms of administrative expenses, the third solution was the most appealing, despite the fact that it increased clients’ costs.
- Perceived corruption and ineffectiveness of the Romanian administrative system. The low level of institutional reliability (including corruption and “readiness” to abuse the EU funds) was the second major cause of SAPARD’s ineffectiveness. Increasing control, primarily through additional procedures, represented a natural solution, despite its negative effect on flexibility. A stakeholder from the ministry described this process the following way:

As I do not trust the official documents provided by a specific local or national public organization, the only thing I can do is to ask for a second document, similar to the first one, from a different public

organization. If the documents say the same thing, then I can be sure that what is stated there is correct. As we still have negative situations with unreliable documents, we still practice this procedure.

This kind of procedural redundancy leads to complicated application procedures, long periods needed to assess applications and difficult rules of project execution.

Patterns of East–West Interaction

SAPARD is a field where European and Romanian actors enter a cultural exchange process, with the aim of creating a strong, robust, and reliable administrative system. The EU/Romanian relations changed significantly during the program's development and implementation. We can highlight two distinctive levels of interaction: formal and informal. Formal interaction included several stages:

Stage one: elaborating the National Plan for Agriculture and Rural Development (NPARD). This was the task of the Romanian side but the document had to be evaluated and approved by EU institutions. Originally, the NPARD document proposed by Romania included 15 strategic directives, out of which the EU approved 11. The encounters can be described this way: *Romania proposes, the EU approves or rejects*. In case of rejection, Romania needed to reconsider the initial proposal and come up with new proposals.

Stage two: setting up the SAPARD institutional structure. This process was accomplished with a clear European input and included the following steps:

1. The EU elaborated a list of institutional norms and requirements.
2. Romania proposed an institutional system, considered compatible with EU requirements.
3. The EU evaluated the proposed solutions and approved or rejected them.
4. Romania implemented the approved solutions.
5. The EU assessed and accredited the institutional system, giving a green light for program implementation.

At this stage the encounters could be described this way: *the EU required, Romania proposed, the EU evaluated and approved or rejected*. In case of rejection, Romania needed to develop new proposals.

Stage three: program implementation. It included three major tasks:

1. Adapting the program strategy to the Romanian situation. Most of the decisions were related to the launch of new funding schemes. In order to accomplish this, the Ministry of Agriculture had to provide a technical description to be assessed by the EU. The encounters ran along the usual line: *Romania proposed, the EU assessed and approved.*
2. Supervising the correct implementation of the agreed standards. In this respect, the EU permanently monitored the system parameters and assessed the degree to which the program complied with European requirements. *The EU monitored and evaluated, then decided on the program's continuation.*
3. Improving the institutional norms and procedures in order to make the program more effective. The Romanian officials identified solutions for improvement, worked out new regulations, and proposed them to the EU for approval. Again, *Romania proposed, the EU assessed and approved.*

SAPARD: Cloning or Hybridization?

SAPARD is a result of a highly intentional and carefully planned and controlled process of hybridization. Although some emergent, natural, unplanned, and sometimes undesired organizational features appeared, the distinctive characteristic of SAPARD remains a special effort to control the final outcome. SAPARD can be described as a process of *institutional eugenics*, that is, interventions improving institutional “genetic” qualities through a controlled, artificial selection of structures, policies, regulations, and actors.

Although the “hybrid” label was easily adopted and used by all interview partners, we apply it within certain limits. The above comments on the unbalanced input and roles allow us to assert that SAPARD is not entirely a hybrid. We can identify areas/zones of hybridization with different degrees of combinatory readiness. At least three patterns of mixing may be of importance:

- SAPARD as a *cloning process*, a “copy and paste” operation aiming at a transfer of EU organizational systems (structures, norms, and policies) to Romania. As SAPARD originated in Brussels (the idea, the concept, and its application standards and procedures

were developed by the EU), some of the core elements of the final outcome were predefined and nonnegotiable. As the program also had to comply with certain Romanian rules and regulations, it also gained some “indigenous traits” as a result of “self-cloning.”

- SAPARD as *an acclimatization process*. By acclimatization we mean small changes in a certain element of the program in order to make it compatible with the requirements of the partner. Planned acclimatization can be understood as a conscious compromise determined by the impossibility of transferring pure EU or indigenous traits. The outcome maintains a strong identity of the program and can be easily attributed to one of the two sides.
- SAPARD as *a hybridization process*. Here, planned and unplanned combinations of traits belonging to both sides emerge. The outcome has sustained roots on both sides and combines the two sources in similar quantities.

The nature of social exchange can be also examined in conjunction with the type of inputs. The core aspects of SAPARD were subjected to intensive control by the EU, while the marginal issues were left entirely under the control of the Romanian actors.

The EU’s critical role in imposing, shaping, and controlling the outcome of the exchange process was a very important factor in the success of SAPARD. However, the intensity of EU control and involvement changed over time. The initial stage can be described as having a low level of combinatory readiness and a higher predisposition for cloning, while the later stages brought a greater willingness—by both actors—to search for adaptive mechanisms leading to increased flexibility and simplified procedures. The emerging strategy in the SAPARD construction can be described as an evolutionary one, leading from robust, rigid, and over-bureaucratized cooperation to a more relaxed one.

Let us identify a few factors affecting combinatory readiness:

- (i) The nature of the task to be accomplished:
 - Complexity of the task. The higher the complexity of the task to be fulfilled, the higher the propensity of the implementing actor to “import” ready-made solutions.

- The degree of novelty. In addition to the complexity of the task, its novelty for the Romanian actors resulted in an increased permeability of the European suggestions within the Romanian institutions.
- Time pressure. The political pressure to finalize the institutional arrangements for the accreditation of the program increased the predisposition for copy/paste strategies.

(ii) The clients:

- Lack of expertise. As stated above, the lack of knowledge in setting up such complex policies and institutions was a major factor in the Romanian actors' decision to "clone."
- A strong belief in the superiority of EU policies also caused a high level of permeability.
- Lack of alternatives. The scarcity of financial resources for rural development programs represents another reason why the Romanian side adopted a non-critical attitude. SAPARD was offered in a pre-packaged form to a pre-accession country, and the country hardly had the chance to say, "No, we can go forward without it."
- The intensity of the need. In Romania, rural development represents a national priority. Due to a large number of people living in rural communities and their low quality of life, the need to find a "quick-fix" solution was another significant factor of compliance.

(iii) The donors:

- The level of trust in the capacity and willingness of the partner to appropriately fulfill its task. As the EU expressed concerns about the institutional effectiveness of Romanian public organizations, and repeatedly highlighted the issue of corruption, to increase the level of EU control over SAPARD. Further control mechanisms were imposed and agreed upon during the elaboration of the financial agreements between the two sides. The intense EU input and the systematic control of Romanian input created a favorable condition for cloning and acclimatization.
- Workload of EU bodies. As the EU initiated similar programs with other countries, simultaneous coordination needed standardization. The higher the workload of the funding partner, the higher

the tendency to rely on standardized solutions and their imposition on the client partners.

(iv) Working relations:

- A monopolistic situation. With the EU being the only provider of such services, it put the receiver countries in a dependent position.
- Unbalanced power relations. As stated earlier, the imbalance in power relations between the two actors (financial power, decision power, expertise power, reward power, coercive power, and so on) represented a major factor influencing cultural exchange.

All the above-mentioned factors greatly reduced the combinatory readiness of the Romanian actors. Although both Romanian and European actors recognized that SAPARD provided space for the promotion of national specificity, the willingness of the Romanian side to fill that space was relatively low. For example, all Romanian respondents mentioned the fact that Spain succeeded in negotiating a “rule exception” regarding the Spanish *corrida* and said that Romania could have done so but no national example was provided. Searching for national specificity and producing documents in order to advocate the preservation of these practices was perceived as an “additional task” or voluntary work with no direct impact on SAPARD. This was, in fact, a manifestation of a strong desire to be “Europeanized.”

Conclusions

Applying the hybrid label to a program such as SAPARD needs to be done with caution. Understanding SAPARD as a cultural complex, we see some of its elements as the result of a hybridization process, while other elements can be described as a result of acclimatization. The degree of cultural and institutional agglutination varies depending on many other variables reflecting the combinatory readiness of the actors involved. We can identify three key elements influencing the strategies of the actors involved and, consequently, the results of the cultural encounters: (i) the technical capacity to design appropriate solutions for the joint task; (ii) the relational capacity to successfully advocate for the preservation of one’s solutions and “habits”; and (iii) the moti-

ventional capacity to promote self-determined solutions. In the case of SAPARD, all these elements were better defined at the level of the EU actors. This resulted in an imbalance of power that led to cloning and acclimatization rather than hybridization.

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Caring Mother and Demanding Father

Cultural Encounters in a Rural Development Program in Bulgaria

Haralan Alexandrov and Rafael Chichek

Background and Context

The European model

This case study describes a project that was patterned on a European model and launched as an element of the European Union pre-accession policy for Bulgaria but was managed by the United Nations Development Program (UNDP). Thus, it provides an opportunity to explore several interfaces of cultural encounters: between the EU and Bulgarian policies and practices; between the administration of a global organization such as UNDP and the Bulgarian bureaucracy; and between each of them and the local rural communities.

The specific approach to rural development, known as LEADER, originated in the EU in the 1990s as an attempt to invigorate the local economy of depopulated rural regions by creating incentives for young people to live and work there. The mandate of the program was to encourage sustainable development with a strong focus on partnerships and networks. LEADER represents a “decentralized, integrated and bottom-up approach to territorial development,” and relies greatly on the voluntary involvement of the local community.

The Bulgarian version

The LEADER approach in Bulgaria was slightly modified to address the major problem facing rural areas in the transition period: a continuous depopulation of the countryside due to underdevelopment and lack of employment opportunities. The project was targeted at the most impoverished rural municipalities and the explicit objective was to foster self-employment and entrepreneurship in agriculture, tourism, forestry, and the service industries. The emphasis was on the “preservation of the cultural and natural heritage; support of the local economic environment and creation of new employment opportunities; improvement of the organizational capacity of the local community.”

The program was launched in 2003 by UNDP in cooperation with the Bulgarian Ministry of Agriculture and Forestry. The bulk of funding was provided from the national budget via the ministry, which exercised monitoring on behalf of the state, whereas UNDP was responsible for the masterminding and the overall management of the project. Renowned for its proven capacity for good governance, UNDP was delegated the expert role in the work, and charged with establishing Local Action Groups (LAG). It had to provide them with training, consultancy, and opportunities for international exchange, in addition to piloting small-scale projects and utilizing them as learning experiences, exercising ongoing monitoring and evaluation of the results, and reporting back the findings to the local teams. Another partner in the enterprise was the local government, which was mandated to contextualize the project in terms of addressing the specific problems of each municipality and to consult the senior partners on the most relevant allocation of resources. The underpinning idea was to introduce legitimate community leadership in the policy and management of the project, and thus promote authentic “local ownership” of the initiative.

The major goal of the project was to build the local capacity for the proper utilization of the forthcoming EU funding for rural development. The assumption was that at the end of the project local expert knowledge would emerge, held by the communities and thus enabling them to successfully grasp and use various opportunities for sustainable development. For this purpose, the establishment and training of LAGs as grass-roots organizations responsible for drafting and implementing strategies for local development, was crucial:

The project aims to strengthen the capacity of municipal authorities, local farmers, land and forest owners, small and medium enterprises, non-governmental organizations, extension service providers, professional associations, and cooperatives so as to become leaders in sustainable rural development. The mechanism for achieving those objectives is the establishment of Local Action Groups.

LAGs were registered as nongovernmental organizations with the representation of various local stakeholders: businesses, citizens groups, professional associations, and so on. Guided by local coordinators, these groups were actively involved in the process of establishing the

rules and procedures of the work, and developing the strategies, design, and implementation of pilot projects. The overall management of the project was allocated to a central unit in Sofia, staffed with experienced developers.

The local context

The field research was conducted on two typical project sites and in the project office in Sofia. The municipalities chosen for fieldwork were in a remote mountainous region, populated predominantly by Bulgarian Muslims (Pomaks). Pomaks were converted to Islam in the seventeenth and eighteenth centuries, when these territories were part of the Ottoman Empire, yet they had preserved their Slavic language. Being different from both Bulgarian Orthodox and Turkish Muslims, and living in isolated settlements in the mountains, they have maintained a unique traditional culture. Up until today, Pomaks have the somewhat fragile and ambivalent identity of an in-between group, not fully integrated in either the Bulgarian majority or the Turkish minority. Traditionally, they live in underdeveloped rural areas in the mountains, often in small villages. From the establishment of the Bulgarian nation-state in the late nineteenth century until the political changes in 1989, Pomaks were subjected to an incoherent and harsh policy of assimilation in the Bulgarian nation, which resulted in further encapsulation and withdrawal from the mainstream of economic, social, and cultural life in the country. Their communities were among the worst affected by the economic transition: in the 1990s, most of the industries in these regions went bankrupt, the mines and the factories were closed, and in order to survive, an increasing number of families turned to the subsistence economy and seasonal migration. The quality of the public services in the rural areas collapsed and the educational and health status of the population deteriorated. This triggered a process of *re-traditionalization* of the local economic and social life, deepening the gap between these communities and mainstream Bulgarian society (Alexandrov 2001). With the stabilization of the national economy around 2000, the situation in these regions started to improve. Foreign investments in the textile and food-processing industries created some new jobs. Tourism in the mountain regions was also on the rise. However, these regions were still lagging far behind in terms of infrastructure and access to quality services.

Major Findings

The project experience: ownership and pride

Our study reveals a strikingly positive perception of the project on the part of the local beneficiaries. The coordinators of the LAGs, who were involved daily with the project activities, describe the project management as flexible, friendly, and supportive. The participatory culture of the management made people feel that they own the achievements of the project and should be proud of them. In effect, the project was perceived as Bulgarian rather than European. Paradoxically, the local people tended to regard Bulgarian civil servants as more alien than the administrators of UNDP, including foreigners. Whereas the UNDP officers are seen as responsive, available, and caring, the state bureaucracy is generally perceived as estranged from the citizenry and indifferent to their plight: a self-sufficient entity preoccupied with its own corporate interests. Considering the fact that the LEADER program was staffed with Bulgarians and there were only a handful of foreigners working in the UNDP office, it can be hypothesized that the strikingly different patterns of relatedness to local communities (and respectively commitment to their developmental agendas) has to do with divergent institutional cultures rather than with differences inherent in national cultures.

A major source of pride for Bulgarians has been the foreigners' appreciation of local traditions, local hospitality, and the beauty of the local natural environment. A number of people from rural areas around Europe have visited the project sites and were accepted warmly yet precariously:

In the very beginning the Bulgarians looked at us as if we were lepers. I did not know what we might have done that interested them so, but they changed after some time together and some discussions. They changed their opinion [and came to realize] that we are not so hopeless, that we have our merits. And then perhaps because of our hospitality, they became friendlier and in the end we parted as friends and I felt that somehow we were the real winners.

The positive feedback from these meetings is interpreted in terms of sustaining the image of the local culture as valuable as it is: *Our village is chosen and our tradition is respected*. This is the manifestation of an established cultural mechanism of utilizing such encounters for

the purpose of sustaining and reinforcing the established self-image of the group, possibly as a defence against the anxiety provoked by imminent change (Menzies Lyth 1959).

The challenge of cultural encounters: anger and shame

It appears that the exchange visits in other European countries stirred an ambivalent and even defensive response among Bulgarian villagers. When asked if the meeting with another culture has changed his perception of his own community, one of the interviewees replied, "I have always loved my birthplace and will always love it." The underlying assumption here is that any comparison that is unfavorable to their local culture is a kind of betrayal. Confronted by the interviewer with the idea that developing a different perspective does not mean that one dislikes his own community, the interviewee responded by saying that he lacked the words to describe the change that had occurred in his perception but he now loved his country even more. Keeping in mind how sensitive Pomaks are about their "national" identity, and how important it is for them to be seen as loyal to Bulgaria, we can deduce that the denial of the unfavorable aspects of the comparison is a defense against the embarrassment and frustration of the cultural encounters.

For example, a visit to rural Hungary brought Bulgarian villagers face to face with an altogether different version of rural life that is in many ways perceived as superior. They were startled by the discrepancies in terms of scale and economic opportunity in agriculture. What is a small private vineyard in Hungary would be huge in Bulgaria, where such a scale could only be afforded by a few large companies in the winemaking business—the ones with privileged access to funding and markets:

In Bulgaria, you need many licenses and other permits to own a cellar. In Hungary, you may have 20 hectares and your neighbor may have 200, and you both can sell wine on the market under your own label. In Bulgaria, you are compelled to sell the grapes to the large wine-makers who will pay you but pennies for it. You can produce it, but you have not the right to sell it.

The lack of economic freedom, opportunity, and equity in comparison to their colleagues from Europe was perceived as an injustice and made them feel inferior.

In a similar mode, Bulgarian migrants who have worked in tobacco plantations in Greece could compare the agricultural policy of the Greek government with that of Bulgaria. Trying to negotiate better working conditions with their Greek employers, they were told that if their own government did not care about them, they should not expect the Greek entrepreneurs to do so either. Painfully aware that they were abandoned and abused by their own state, they felt humiliated and angry. Yet, even when faced with the betrayal of the government, they felt obliged to be loyal and tried to sustain their patriotic attitude, producing plausible rationalizations and denying part of their own experience and the feelings related to it. These socio-emotional dynamics are defined by Thomas Scheff (1997) as “unacknowledged shame” and are seen as a source of societal and cultural conflict.

Even more frustrating were the discrepancies in the quality of public infrastructure, reflecting the differences in the quality of human relations in the community, known as “social capital.” In the interface with a foreign culture an uneasy fact emerged: their difficulty in cooperating with others in a constructive way. Confronted with the evidence from other countries, local activists realized that they lacked a major resource for community development: the good will of local people to cooperate and invest in public issues. This deficiency was explained in terms of the poor human relations and the ensuing lack of entrepreneurship and leadership in communal life.

The failed community: dependency and envy

Regarding the experiences of other countries, the project coordinators discovered that their communities had limited capacity to benefit from development opportunities, since they failed to come together around a meaningful communal goal. Examples were given that, in emigration, fellow villagers and even neighbors keep separate and do not support each other. When the energy of people is poisoned by envy, it is difficult to focus on cooperative endeavors. One of the coordinators shared his bitter realization: “If I can do something to resolve the envy between people, I will be very satisfied. Our people are not willing to do something but are envious of what the other has done or achieved.” Envy is a powerful driving force in human activity but also an ambivalent one. It can provoke extremely destructive behavior, but it can also bring

forth ambition and creative competitiveness. In this case, the envious feelings were manifested in the denial and devaluation of the achievement of the other cultures and the silencing of the criticism towards the culture of origin. Yet, in the context of the interviews, the articulation of critical insight became possible. The exposure to other cultures brought about the bitter realization that unless local people transform their strictly private agendas in a collective project, they are doomed to failure.

The comparison with the seemingly more successful culture of Hungary made the Bulgarian villagers aware that, without control over their destructive impulses, a common well-being is unattainable. While reflecting on these uncanny aspects of communal life, one of the interviewees shared feelings of intense discomfort and even guilt, as if by articulating the shortcomings of his group he was betraying his people. He felt that because of his work he was becoming different from the community and was anxious not to appear alienated and seduced by a foreign culture. Therefore, he needed to state explicitly his loyalty to his country and group of origin—in the course of the conversation he insisted now and again that he is still a patriot as he has always been and that the project has not made him a different man. Apparently, if one dares to pretend to be better or more successful than the rest, this would be interpreted as an offence: “There’s a saying to greet people you meet when you climb up because you will meet the same people when you come back.” The very recognition that people from other cultures have better lives because they have developed more mature relationships, was equated by him to estrangement from his own culture, threatening him with loss of belonging and identity.

For the time being, the coordinators described the groups they work with as highly passive and dependent. As one of them put it: “If I can help people to realize what’s really valuable for them I’ll be happy, because at present they don’t know.” This lack of local leadership, in terms of producing a vision of a better future for the community consistent with the local conditions is congruent with the findings of other studies (Tomov et al. 2002). Further exploration of the community dynamics related to the state of social capital and group cohesion can provide deeper understanding.

The project as an agent of cultural change

Some of the most intriguing findings emerged from the interviews with the central managerial staff of the project, whose daily work by its very nature was saturated with cultural encounters of various types, including encounters with the different cultures of the big international institutions engaged with development in Bulgaria. The chief project officer (CPO) produced an illuminating family metaphor to explain the complementary role of UNDP and EU in the field of development:

UNDP functions as a nurturing and caring mother, in contrast with the EU, which plays the role of the father—providing more generous funding, but requiring strict discipline. These institutional cultures interacted in a complex and sometimes conflicting way with the cultures of the local communities and the central state administration.

The most vivid discrepancies between Bulgarian culture (represented by both the central administration and the local actors) and Western culture (represented by the donor institutions) were manifested in the different attitudes to formal rules and regulations. While for the European partners the rules regulating the work were sacrosanct and their observation was taken for granted, for the Bulgarians they were always open for renegotiation. Especially embarrassing for the foreigners were the double standards practiced in Bulgaria: “Bulgarians may have it this way or the other way, which is totally shocking to most Westerners.” People would formally agree to apply certain rules, but at the same time implicitly assume that those will be broken and still believe that they have a legitimate deal. This tolerance to collusive relations was entirely incomprehensible to the Western partners, who wondered how the economy managed to work at all in an environment of legislative chaos and disrespect for formal contracts.

The project, however, introduced tangible changes in the culture of regulating business relationships by means of its very design: the strict project requirements were setting standards for planning, budgeting, and formal contracting, quite different from the existing practice of loose and ever-changing oral agreements. The Bulgarian partners learned that once a deal is struck and a contract is signed, it has to be observed and followed. At first, these standards appeared too rigid, but later on they were acknowledged as helpful, since they guaranteed predictability and security in relationships—conditions highly valued in an uncer-

tain environment. The project thus introduced a different model of governance, not only at the level of rules and regulations but also at the level of personal relationships. The legitimization of this new model came along with the financial support but also with the personal authority of UNDP management and foreign partners. Indeed, as interviews with local people demonstrated, they felt privileged and honored to work with this reputable global organization.

The institutional role of the project officer became the arena for one of the most significant cultural encounters: she had to promote the culture of governance based on strict contracts on the one hand and represent the viewpoint of local culture, namely the disrespect for rules and regulations, on the other. Apparently, she coped with this conflict by developing relationships of trust and support with the local actors. She expressed her happiness that they viewed the central office not just as an overseeing agency but as an advocate for their interests vis-à-vis the state administration and the international community. Even when they were failing, the relations of trust and care prevailed and enabled further learning and change. The CPO was proud of the successes of the local people and confident that they would continue on their own after the project.

The project as a learning experience

Cultural learning is, of course, a two-way process—the European partners were also learning about the Bulgarian environment and struggling to understand the limitations set by the local culture. Our case study suggests that the difficulties of Westerners to grasp the local context were related to their obsession with introducing standard models and practices. An implicit assumption, shared by both parties, was that the European ways were culturally superior, yet while the Westerners believed that they were more or less directly applicable, the local actors were more skeptical and selective towards the “good practices” that were promoted. These divergent perspectives, however, were not easy to articulate and communicate across cultural boundaries.

According to the CPO, what the Western partners failed to comprehend were the complexities of the economic, cultural, and political background from which the Bulgarian communities commenced their journey to development. They were liable to construe the discrepancies not in terms of different cultural and economic traditions but simply in terms of lagging behind. However, this linear evolutionary

perspective, implicit in the notion of development is misleading, since it reduces the complexity of social change to simple acceleration through the introduction of universally successful models: “You need to catch up with us; irrespective of the local circumstances, you have to make it.” This urge is understandable, keeping in mind achievement-oriented Western culture, but from the viewpoint of local people it is interpreted as undue pressure and even as cultural imperialism: “The ways of the white countries are not always the best.” Thus, wealthy countries tend to project on poor countries their own expectations and assumptions, and when those are frustrated, tend to blame and scrutinize them, too.

The CPO believes that the role of Bulgarian managers is not simply to implement a Western experience, but also to translate it in such a way as to make it relevant and usable for the Bulgarian people, and thus adapt it to the local contexts. To obtain this goal, the project had to establish and sustain a kind of transitional space where the cultures might meet and enrich one another through a reflective dialogue: friendly settings inviting the participants to open their minds to different experiences and mutual learning. Sometimes this experience was communicated in unusual ways—for instance, in terms of demonstration of specific cultural practices. One of the most successful workshops on traditional Bulgarian craftsmanship was structured around the rebuilding of an old house. At first, the foreign experts were convinced that the best solution would be to pull down the old shack and build it anew from scratch. The Bulgarian masons, however, started to work and over a couple of days demonstrated how it could be repaired. The foreigners were deeply impressed, acknowledged the virtuosity of the local masters, and volunteered to learn from them. This was an extraordinary experience of intensive cultural exchange in the language of art—the masons were “speaking with their hands.”

The discovery that foreigners have something to learn from local people was a powerful source of cultural pride. According to the CPO, this was one of the most positive outcomes of the project:

We should learn not to underestimate our own ways and traditions, which in certain aspects are unique. We need to be aware of the value of our own culture and how it can enrich European culture. We have to be more self-confident and assertive, since we possess many things of value. Through the perspective of the Westerners, our people have

a chance to see their own culture from a different perspective and start to take pride in some of the things they are accustomed to being ashamed of.

It appears, that over the course of the project, the basic relation between Bulgarian experts and their Western counterparts had evolved from dependency on outside support and expertise towards a more cooperative partnership. The power balance, however, was still asymmetrical due to the symbolic superiority of the West, which was experienced as unjustified. The emancipatory strategy was based on the claim for equal value or even superiority of the local knowledge, whereas imported “Western” knowledge was increasingly seen as irrelevant to the context.

Diverging organizational cultures

In the course of the project, a typical institutional strategy for avoiding structural change emerged. It can be defined as a domestication of Western practices and approaches: the empowered local actors infuse the projects run by international agencies with different meaning and try to incorporate them into the predominant institutional culture (Alexandrov 2004). According the UN officials in Bulgaria, there was a considerable difference in the way UNDP and the Bulgarian Ministry of Agriculture perceived the aim of the project for sustainable rural development. The original mission of the project was to support human development, although UNDP interpreted this in broader terms and estimated the results along a comprehensive set of criteria. The ministry, however, reinforced its bureaucratic logic by breaking down the developmental program, subordinating it to the narrow agendas of different departments, and estimated the results in qualitative terms. This reductionist approach was at odds with the more sophisticated idea of human development espoused by UNDP, which considers the quality of human relations and the development of social capital. An inherent conceptual conflict between the two major stakeholders emerged that influenced the project implementation. In this case, the pending conflict was adeptly avoided by UNDP by positioning itself between the local community and the government structures involved in the EU accession policies, thus assuming the double role of translator and advocate for the local people.

Unlike the Bulgarian administrators, the foreign staff of UNDP proved quite sensitive to local contexts and needs. The decision-making

practices within the agency were participatory. The Bulgarian employees were invited to partake in the process and exercise authority using their implicit knowledge of local culture. However, they often failed to utilize these opportunities, reinforcing a pattern of behavior common to bureaucratic institutional cultures that frustrates genuine participation and creativity. This resulted in a certain cultural tension within the office. One of the most difficult issues for the expatriate management of UNDP was the individualism demonstrated by Bulgarian employees: "People are preoccupied with their own objectives." Another cultural pattern, noticed by all newcomers from abroad, was the reluctance of the Bulgarian staff to participate authentically in group events and the high level of compliance with authorities:

The Bulgarians don't object if they disagree, especially if they disagree with the authority. All team meetings have one and the same dynamic—one is speaking and silence is the only feedback you get. When the meeting is over, the real discussion begins in the corridors. The foreigners can never feel accustomed to this. This is fear, perhaps coming from the past experience with communism.

The third cultural challenge for the expatriate management was the pessimism of the Bulgarian employees, who were always on the alert for pending troubles, taking measures to survive personally in case of failure. They interpreted the behavior of empowered actors in terms of a power game, abuse of power, and recourses, and thus fostered expectations for poor performance with disastrous consequences. An inclination towards corruption was also seen as a major tendency for the Bulgarian administration, which made the partnership very difficult and put the foreign representative under constant pressure.

Conclusion: Experiencing social change

A recurrent theme in the interviews was that of personal change, fostered by the cultural encounters that triggered an ambivalent response. On the one hand, local people felt enriched by the encounters with other cultures, especially in terms of borrowing and adapting solutions to practical problems. However, when they were asked how this experience had changed them, the answer was that they are no different from the rest of the community. It appears that acknowledging one's difference in a still predominantly patriarchal culture is perceived as threatening for the individual and potentially disruptive for the collec-

tive. Personal development (economic, cultural, intellectual, and so on) is legitimate as far as it is pursued privately, whereas the public commitment to cultural change is seen as an indecent, if not subversive, activity. In order to belong to the group, the individual is expected to comply with one important norm: never to challenge publicly the dominant cultural assumptions. As long as he or she pays this tribute, then he or she is free to pursue his/her private agenda, even if it is at odds with the official cultural norms. This culturally sustained disintegration is one possible explanation for the unacknowledged experience of shame, which was the emotional undercurrent of most interactions we experienced over the course of the study.

At the heart of the cultural encounters is the divergent perception of change. The philosophy and practice of development is based on an inherently progressive and optimistic understanding of social change. The experience with engineered change in post-totalitarian societies, however, is quite ambivalent: communist modernization brought a number of improvements, but it was enforced top-down by the state apparatus at the cost of destroying communal links and brutally rupturing the social tissue. In the process local communities were disempowered and excluded not only from the process of decision-making but also from the process of the construction of meaning: the essence of change was taken from them and incorporated in the political ideology, only to be enforced once again in the form of state propaganda. In effect, the communities were deprived of the ownership of the changes that occurred and were allocated the role of passive recipients or victims, depending on the way they were affected by the changes (Tomov 1995; Alexandrov 1998). This forceful alienation from social participation was internalized by the individuals and communities as a survival mechanism under totalitarian circumstances, and in the context of the encounters is manifested as distinctive cultural difference. One of its most destructive effects is the limited capacity of individuals to identify with public causes and respectively invest in long-term communal projects, and their preoccupation with short-term private interests and material gains—a phenomenon defined by Banfield as “amoral familism” (Banfield 1958). This dramatic discrepancy in terms of social awareness between Western developers and local actors appears to be one of the major obstacles for the harmonization of their agendas and, hence, for the success of the project. But it is also the point of departure in the

process of cultural learning and adjustment as demonstrated by this case study.

According to the CPO, the misunderstandings and tensions between the Bulgarian and Western partners are explicable in terms of divergent readings of a shared reality due to specific cultural and social experience, which is hardly communicable to outsiders. This assumption that Eastern Europeans abide to a kind of cultural enclave that is both radically different and inexplicable to outsiders suggests that there is a domain of experience which is traumatic in nature and is therefore internalized and not reflected upon. A typical manifestation of traumatic identity (Tomov 1995) is the attempt to explain the painful experience in positive terms and thus persevere. According to the project officer, Westerners are often seen as less free than Bulgarians because they are enslaved by rigid social conventions—if one fails to answer the social expectations one is stigmatized, whereas in Bulgaria people are free to fail once and again, and thus learn by experience. Some people claim that even in totalitarian times Bulgarians had more liberty of mind than Westerners, which was manifested in rejection of the official ideology and disobedience to the rules and regulations.

What we have here is a paradoxical reversion: the unconditional trust in authorities and regulations is equated with a lack of freedom, whereas distrust is valorized as a critical attitude that spurs creativity. It appears that, at some level, the rules are experienced as a coercive, if not repressive agency, external to the individual actor and not as an agreed upon and therefore legitimate framework for making ethical choices. The construction of the internalized moral principles as a punitive superego corresponds to an early stage of the socialization process, when the individual has not attained ownership of his own moral agency, that is, the internal regulations are perceived as imposed restrictions of the free will and not as mature responsibility (Erikson 1968). The experience underpinning this paradox is probably one of failed dependency and betrayal on the part of the authorities. It is hinted in the way the project officer evaluates the benefits of the participatory approach: "People were happy to create new rules together—they keep those rules and know how to survive with them." It appears that at some very basic level of experience, coded in the fabric of culture, rules are something people learn how to *survive* with, something strange and alien, which exists not to serve their needs, but rather to suppress

them, and which acquires an independent and threatening existence even when they are created by them and for them. What is informing this perception of the social world is a collective traumatic experience of systemic disempowerment, masked as participation. Under totalitarianism, people were invited to participate in the creation of the social fabric but were deprived of any control of the end result (Alexandrov and Chichek 2005). In the mental map of the social universe thus construed, society is experienced as a hostile external reality, where the self is expected to survive by adapting to strange and incomprehensible rules. In such a world, social regulations are inherently estranged from and juxtaposed to the human agency, which can attain its freedom and self-actualization only by avoiding or breaking the rules, not by owning and transforming them.

We can conclude that the agenda of social development, as any form of profound change, is both contingent on culturally established worldviews and patterns of relations, and is immensely challenging for these patterns. Cultural change requires and enhances personal transformation, and therefore is an often contradictory and contested process with an uncertain outcome. Personal transformation can be triggered by certain cultural encounters, marked by intense emotional experience. Deeper changes presuppose not just cognitive learning (coming to know the ways of the other culture), but interplay between cognition and emotional experience, resulting in an altered perception of the self vis-à-vis the environment (coming to better know oneself and how one is preconditioned by one's culture of origin). When the encounter is allowed to be experienced emotionally, which is often a painful process involving feelings of shame and guilt, it may inflict a rupture in personal identity.

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Becoming European: Hard Lessons from Serbia

The Topola Rural Development Program

Mladen Lazić

Introduction

Contemporary economic culture in Serbia, the characteristics of which resulted from several contradictory historical processes, cannot be analyzed by simply “de-constructing” these characteristics into simple dichotomies like East and West, traditional and modern, or socialist and capitalist. Serbia’s historical development—in which belated modernization took the form of socialist quasi-modernization shaped as a “liberal”/quasi-market/opened-toward-the-West system that finally ended in a civil war, international isolation, and economic collapse—produced a complex mixture of value orientations that could serve as a basis for quite different modes of socio-economic reproduction.¹ This mixture has been characteristic of wider social groups, defined by their level of education, urbanization, or age, but it also cuts through subgroups and even individuals, leading to ambiguities in their general life goals and everyday behavior.

The pronounced complexity of recent events produced ambivalent expectations among foreigners, especially Westerners who have worked in Serbia, so that their views on the cultural characteristics of the local population have also been marked by incongruities and contradictions. The Topola Rural Developmental Program (TRDP), a three-year economic aid program run by a Western agency in a rural environment, provides a very good opportunity to study the encounters of these internal and external cultural mixtures and ambiguities.

¹ For more on these intricate characteristics of the Serbian historical development—torn between Eastern and Western, traditional and modern, socialist and liberal, autarchic and oriented-toward-the-world patterns of socio-economic reproduction—see Lazić (2005).

Methodological Remarks

This Serbian case study combines a quantitative and qualitative approach in which the quantitative methodology has a secondary role: a survey of 500 inhabitants of Topola municipality (random stratified sample) demonstrates the general evaluation of the Topola Program by people who are supposed to be the project's main beneficiaries. In our qualitative research, 10 respondents occupying different positions in Topola Rural Development Program were interviewed: five Westerners and five employees from Serbia. The interviews were semi-standardized and the respondents from one cultural background evaluated the cultural patterns of the "Other."

Our Western respondents were highly educated (all with postgraduate degrees), occupied managerial roles in the project, and nearly all of them had rich experiences working with people from other cultures (in developing countries). Serbian respondents varied in all these characteristics: education (from high school to postgraduate degrees), positions in the project (a driver, a clerk in administration, program coordinators), and previous contact with other cultures. However, these differences reflect the organizational structure of the project, in which Westerners had managerial and professional roles only, while local employees covered a much wider spectrum of roles.

Research Field Settings

TRDP was a regional development project conceptualized and financed by the Swedish International Development Agency (SIDA) and implemented by OPTO International (a private Swedish firm) in the Topola region in Serbia in the period 2002–2005.

Topola is a municipality with approximately 26,000 inhabitants located in central Serbia, some 80 kilometers south of Belgrade. Relatively underdeveloped, the region has struggled with a steadily decreasing population since the Second World War. The vast majority of inhabitants live in rural settlements and agriculture represents the most important economic sector in the municipality.² The bulk of smallholders are peasants with three to eight hectares of arable land. Although 70 percent of the land is used for commercial crop farming, small individual

² Farmers make up some 45 percent of Topola's population.

holdings have been further fragmented into unconnected plots, making them unsuitable for modern agricultural machinery and hardly profitable under modern market conditions. Industry in Topola developed during the socialist period consisted of a few small food-processing plants, one textile factory, a small mining company, and a foundry.

TRDP began after the removal of the Milošević regime in 2000. At that time, the Topola region was drastically pauperized (like the rest of Serbia), the result of fifteen years of civil war, international isolation, war with NATO, economic collapse, obstacles to post-socialist transformation, and so on.³ For Topola, this uncertain period brought over 4,000 unemployed and 500 poor inhabitants who are entitled to social benefits. Furthermore, some 1,000 people from Croatia and Kosovo found refuge in Topola's environs. By 2000, most of local industrial enterprises ceased production and the local infrastructure was in ruins.

The local population at the time of TRDP's conceptualization included a vast majority of poor people just able to satisfy their most basic needs through self-subsistence (the small amount of cash in circulation came from the local agricultural market and a few jobs in local administration). Local elections in 2001 brought to power a coalition of political parties that were in opposition to Milošević's regime during the 1990s, but the change was primarily the result of a general political shift in Serbia rather than a consequence of democratic maturation of the local population. The change in power in Belgrade, however, initiated increasing systemic reforms in legal, administrative, economic, and political areas in the country and gave rise to new expectations that also registered on the local level, especially among the youth. Still, the local culture remained marked by a mixture of traditionalist and socialist values, characterized by authoritarianism, patriarchal norms and attitudes, ambivalence to liberal ideology, closure toward the outer world (especially toward foreigners), and passive attitudes to the state (inclinations to a redistributive state).⁴ It should be kept in mind that our Serbian respondents employed at TRDP are not typical representatives of the general population (their level of education is much higher, they are younger, two of them live in Belgrade, and so on).

³ For more about these historical processes, see Lazić (2004).

⁴ For empirical findings concerning value orientations of the population in Serbia after the change of Milošević's regime, see Lazić and Cvejić (2005).

TRDP's Characteristics

SIDA approached the Topola project on the basis of its many experiences in other underdeveloped countries. Naturally, this experience was “processed” by basic liberal principles of (individual) self-reliance and self-determination that find expression in the introduction to a document officially describing TRDP:

Good governance, democracy, and transparency were regarded as pre-conditions for a sustainable development and were actively stimulated. The participatory development process of TRDP was based on SIDA's policy of economic growth, gender balance, poverty reduction, and sustainable environment. The approach emphasized cost-sharing: TRDP support complemented local initiatives once they were identified and commenced, but did not function as the primary driving force.⁵

It should be immediately noted that of the four SIDA basic goals, two (gender and environment) were almost completely absent from the value system of the local population, while (long-term) economic growth was out of reach of TRDP itself. Therefore, the attention of people in Topola could be attracted only by the “poverty reduction” point, which expressed their urgent need.

The Topola Population and TRDP

Initial attitudes

Very soon after TRDP started its field activities (in spring 2002), it made a survey of attitudes of different local actors in the main project areas (politicians, NGO activists, farmers), including a small representative sample of the town's population. Some 350 “ordinary” inhabitants of Topola municipality were interviewed, plus almost 100 people from the municipal and local government administration, and 50 NGO activists. The main findings of this first survey are summarized below.

More than a quarter of our respondents at that time knew nothing about TRDP (people from villages were less informed than others, while political activists represented the best-informed group). Of those who had heard something about the project, many thought that OPTO was an NGO dealing with donations and financial aid. This (wrong) idea

⁵ TRDP Executive Summary memo (2004), 1.

led to positive expectations regarding the project (among the majority of respondents), connected with a belief that its activity would “help the economic recovery and development of the municipality,” primarily by “building local infrastructure.” Negative attitudes toward TRDP seemed to be the result of an idea (coming from a general distrust of foreigners among the local population) that “the project would manipulate people” or that “it would not produce any concrete results.” Different groups of the population evaluated the project in different ways. Political activists had the most positive attitude toward TRDP. Their complaints were mostly related to the possible “lack of concrete results.” The most skeptical opinion about the project was found among town people: the respondents did not expect any useful results.

To these general survey findings, we could add our own personal experience about the expectations of the Topola population concerning TRDP, acquired in many informal conversations with people in different positions in the municipality. Even among those people who declared themselves informed about the project, the level of knowledge was extremely general: they spoke of “some Swedish investments,” mostly in the municipal infrastructure. They expected part of the general benefit (water supply, roads reconstruction, improvement of agricultural production, development of tourism, and so on) to “spill over” to them personally in the form of: “donations” (peasants); “jobs” (leaders of new NGOs, local entrepreneurs, in construction firms); position rents (bribes for politicians), and so on.

To conclude: at the time of their first encounter, the two sides (SIDA/OPTO and the local population) approached each other with very different sets of assumptions. At the core of TRDP was the idea that the local community should be helped to start with its own economic, social, and political transformation. The transformation was supposed to be systemic (from a command economy into a market economy, and from political monism into liberal, democratic polity) and societal (from traditional, patriarchal community into modern society). Since the change was supposed to be extremely deep and wide, and TRDP had very limited resources (in time and money), its most important task was educational, while some investments were to achieve double goals: to prove good intentions, and to serve as an experimental teaching field (channeling investments primarily into infrastructure also meant helping the creation of basic preconditions for economic and social development). The Topola population did not know or did not

understand these goals. The orientation of local people was primarily short-term and economic: they expected something “concrete,” which, in reality, meant money for satisfying public as well as private needs.

Practical and attitudinal outcomes of the encounters

This case study does not enumerate all of TRDP’s practical results achieved in Topola during its three years of operation. But, in brief, small investments were made throughout the municipality (reconstruction of roads, schools, water supply, and so on). Furthermore, a project for the rehabilitation of the main water distribution system was completed and the actual work started (with USAID financial help). Several NGOs received financial support to organize their operations. Also, many educational/training courses were organized and financed (for farmers, small entrepreneurs, local politicians, NGO activists, students of foreign languages and computer skills, and so on).

However, what is more important for our study are the consequences of these activities and the way in which the actors on both sides—Westerners (engaged by TRDP) and the local population—saw each other near the project’s completion. Our second survey of the Topola population was performed after TRDP had entered its final phase. A random stratified sample was used in the second survey. The type and size of settlement represented the basis of stratification: one part of the sample (150 respondents) was made up from inhabitants of the town of Topola, and the other part (350 respondents) from the surrounding villages.

According to basic demographic characteristics, the structure of the sample was as follows: (a) gender: 42.8 percent men, 57.2 percent women; (b) age: 18–27 years: 16.0 percent; 28–45 years: 28.8 percent; 46–65 years: 33.2 percent; and 22.0 percent over 65 years; (c) education: 2.6 percent: without school; 19.0 percent: incomplete elementary school; 18.8 percent: elementary school; 47.6 percent: high school; and 12.0 percent: university.

The questionnaire was composed in such a way that research results could help answer the following main questions: What is the level of information of the local population about TRDP? What is the attitude of the population towards different activities within the scope of TRDP?

Eighty-four percent of respondents knew something about TRDP activities, and almost every second respondent chose a very vague option: “Heard about it, but don’t know any details.” Only 12.2 per-

cent of respondents said they had a great deal of knowledge about the project and those were most frequently respondents who took part in TRDP. Precisely that group had the most favorable attitude towards TRDP, as its members had the highest possibility to learn about the intention and workings of the project: in other words, respondents who were directly included in the realization of the project itself. The respondents who were less informed and did not use the opportunities that the project offered, were most frequently members of specific social groups. These were, as a rule, people with low social status: the unemployed and those with little education. Members of these groups most often evaluated TRDP as a project of small or no value for the municipality.

It is also important to first mention that the majority of respondents were familiar only with those TRDP activities that took place in their closest environment. A relatively small percentage of respondents (38.2 percent) were able to name activities that took place in other parts of the municipality. Furthermore, the highest percentage of respondents (82.5 percent) were informed about TRDP activities in the infrastructure-building and/or reconstruction (primarily roads, waterworks, and electricity). These were activities aimed at improving the living conditions of the largest part of the population. But only half of the respondents knew about the organization of training courses, seminars, and so on.

On the question of the general attitude of Topola population toward TRDP, we found that among the 80 percent of respondents who were acquainted with the project, more than half thought that it brought *certain* benefits to the municipality, a third believed that the project meant *great* benefits, while only nine percent did not see *any* benefit at all. Professionals were the most skeptical towards these benefits. The explanation of this finding may take two plausible directions: Either the personal expectations of members of the group (to be directly engaged in TRDP, and make some private economic gains) were unfulfilled or they expected more economic investment into the municipality and did not see much of a public benefit in short courses on democracy, principles of market economy, gender equality, and so on.

If these data are compared with those obtained in our previous survey, it is possible to draw the following conclusions about the effects of the project. At the beginning of TRDP, attitudes of the population towards it were somewhat less positive in terms of its benefits for the

community than at its end. In our recent survey, the most frequently noted positive aspect of the project was “financial aid in the development of infrastructure”—a response given by 35 percent of those interviewed. The next most frequent positive response was more universal: “improvement of inhabitants’ living conditions”—19 percent of responses. Among the opinions that were encountered occasionally, was an emphasis on the significance of counseling and educational aid provided by the activists of TRDP within workshops, public discussions, and seminars (only 2.8 percent of responses, most often given by individuals with university degrees). All in all, only 10 percent of respondents who positively evaluated the results of TRDP stressed its immaterial aspects (development of democracy, good governance, gender balance, civil society, and so on), which were high priorities for the people who initiated, financed, and ran the project.

Among the respondents who pointed out the benefits of TRDP, the largest number, when asked to select the most useful action, chose the development of infrastructure—43.3 percent of responses. Other actions considered especially useful include the reconstruction and fitting of public theaters, schools, and kindergartens, in particular, local communities (15.5 percent). Once again, the political and cultural benefits deriving from TRDP were only marginally chosen as important by the local population when compared with economic benefits.

Western and Local Participants in TRDP

The second part of this research comprises an analysis of data collected during in-depth interviews with 10 participants in TRDP.

Western and local respondents on Serbia and the contemporary Western world

Westerners employed by the TRDP project brought their own preconceptions about the contemporary socio-historical context of Serbia at the time of their arrival in the country. They expected to work in a European, post-socialist country that had just removed an authoritarian regime responsible for involving Serbia in long, devastating wars (including international economic sanctions, and so on).

The problem with this picture is that, even if it looks realistic at the first glance, it is inconsistent. Our respondents demonstrated ambiva-

lent attitudes toward their new environment. Their expectations of Serbia included elements of a modern European country, but also of crudity and suspicion on the part of the population of a pre-modern world, with inclinations to centralism and authoritarianism as communist legacy of the country.

Coming to Serbia I realized that here you had a highly sophisticated industrial complex. Serbia was producing very sophisticated defense industry, their own vehicles, tractors. This was an industrial nation, an industrial culture (Hans).

This ambivalence was very important since it characterized not only personal but also institutional relations built into the SIDA approach to TRDP. On the one hand, the very reason for launching TRDP was the idea about an underdeveloped country, additionally hit by wars and economic isolation, which consequently needed basic help. On the other hand, there was an assumption about the dormant modern (market and democratic) rationale of local people, which needed to be awakened and stimulated.

Our respondents handled this ambivalence in different ways. Cultural differences between the local people and the Westerners were easily and relatively consistently spotted. The most general characteristic of pre-modern (rural) Serbia, according to our respondents, was conservatism/traditionalism. Among the most important elements of conservatism, directly opposite to the value system upon which TRDP was conceived, is a widespread patriarchal orientation. It is no wonder that our respondents immediately detected such an orientation.

I remember the first meeting in a local community when we introduced the project. There were only men and they were against any woman who might participate. They all thought this would be a complete waste of time and they were very confused when we argued that women make up half of the population (Hans).

Another element of traditionalism is passivity (that fitted very well with the socialist hierarchy): People, in principle, waited for actions concerning public matters to be taken by somebody else “entitled” to such actions. Of course, passivity, as a rule, represents just the other side of obedience: waiting for someone to do something means waiting for a framework for one’s own action to be set from the outside,

whereby its pattern and results are predetermined. What we have here was described by one of our respondents as “deference.”

The structural/institutional side of this “waiting for someone” habit is even more important, and takes the form of strict organizational hierarchy. Here a few very basic principles are directly inherited from socialism. Doing things spontaneously is not allowed, since it presupposes an autonomy that could not be tolerated in a command structure. The most efficient form of control over people’s behavior is organization, because it combines external impersonal norms and internalized values as vehicles of control. The hierarchical form of organization ensures the permanent reproduction of command structures.

More than a decade of blocked transformation in Serbia (during the 1990s) could not change this legacy: the combined pressure of an authoritarian political system, extreme economic hardships, and international isolation produced a widespread feeling of individual helplessness that could be overcome only if people could find a collective shelter, which, as a rule, took an organizational form. In one way or another, all the Western respondents noticed these characteristics and described them in a similar way. On the other hand, the pattern of “collective discipline” imposed by organizations creates anarchical forms of resistance at the individual level that prevents organizational efficiency. The resistance may take different forms, starting with withdrawal from reality and ending with manifest aggression.

Western respondents registered both extreme forms of such behavior. A strict hierarchical type of organization produces an impossible barrier for the discussion of problems among people: criticism from above means punishment and criticism from below is interpreted as rebellion.

Concerning the work, people here are extremely defensive. There isn’t much open discussion about the job because people see this as criticism. When I say that what we did wasn’t all that good and that we should try another way, they take it very personally, they’re offended, while for me this is the way to improve things (Hana).

When, however, people enter relationships as “equals,” outside the official hierarchy, disagreements very easily take the form of aggression.

Going back to the idea that there is something inconsistent in the attitudes of the Western respondents (a view on Serbia as an industri-

alized European country, with a very well-educated population and at the same time, as a country with many conservative, defensive and obedient, passive and aggressive people), it would be wrong to attribute this inconsistency to an incorrect perception or to a fragmented, shallow, and insufficient knowledge. Namely, the inconsistency belongs to the reality itself, since these contradictory traits are the product of a specific historical development, which stimulated both extremes of these characteristics. Additional information on this “two-sided” culture may be obtained from the attitudes of the local respondents.

Local respondents demonstrated an almost complete absence of critical evaluation of Western values and norms, behavior, and organization. Western cultural patterns serve them as the yardstick by which they evaluate the distance of local standards from the “positive” (Western) or “negative” (Serbian) end of the scale of values and norms.

Foreigners are different. My biggest surprise, and the most beautiful part of my experience with TRDP, is that differences among people—in experiences and capabilities—are respected. If someone has any problem at a given moment, if he/she cannot solve the problem, this is not taken in a dramatic way, there’s no punishment, and such people are given support. The job is assigned to new people with more experience (Ivana).

In the center of the positive evaluation of Western culture stands organization. Its efficiency is something our respondents expected before they started to work and found this expectation immediately fulfilled. The smooth functioning of the organization rests primarily on precise planning. But even more important for local respondents is the “democratic type” of TRDP organization. They mention several aspects of democratic relations in it. First, they point to teamwork in which every action keeps its specifics, instead of being atomized into individual fulfillment of duties, as is the case in strictly hierarchical organizations. Respect for differences means, furthermore, that the space for personal initiative is left open, so that everyone has a chance to contribute individually to the fulfillment of the organizational goals. What is tricky in these accounts is the fact that they directly contradict the statements of the (Western) program manager, who claims that he had to *abandon* the idea of introducing a horizontal type of organization in TRDP because of the inclination of the local staff to hierarchical

relations and their incapability to function according to the rules of democratic relations.

I started a line-organization here, instead of pyramidal organization. And this was a complete disaster. Because in line-organization there's no boss, the system is built upon trust and responsibility, and these are not parts of Serbian culture. So what happened was that everyone started to consider himself a manager, no one was prepared to take any instruction or orders, and no one was prepared to coordinate. This didn't function at all and I had to reintroduce a pyramidal system after a few weeks (Peter).

How can we explain this discrepancy? One possibility is that the local people and the Westerners began their relationships with an opposing understanding of organizational principles ("extreme centralism" versus "extreme democracy"), so that once they found a kind of meeting point between these extremes, they interpreted the new position as the opposite of their starting position. Or, in other words, it is likely that verbal disagreement merely covers the results of a process of adjustments by both parties. The present organizational arrangements, which local participants interpret as "consensual-democratic" and Western respondents as "hierarchical," represent a functional form that responds to two demands: efficiency and satisfaction.

There are, however, other, more subtle aspects of this question to be touched upon. The concept of "line-organization" that Westerners brought to Serbia was developed in market conditions, where employees had an option to enter and also to quit an organization and find another job. Also, our Western respondents came mostly from Scandinavian countries with a long history of participative forms of management. Local employees, however, hardly had an adequate alternative to a TRDP job. They were well paid here (in comparison with people employed in local firms) and kept good jobs during times of high unemployment in the country. In a word, they were much too dependent on the managers to take the opportunity to make democratic initiatives. Here, we find an argument for the statement that institutional factors (type of ownership, labor market conditions, and so on) probably play a role equal to (or even more important than) "pure" cultural tradition in differentiating the organizational habits of Western and local respondents.

Specific differences

Among the factors that may explain difficulties in establishing democracy in Serbian organizations, both groups of respondents refer to a low level of trust among the local population. ("Here people do not trust anything or anyone. The judiciary is very slow. Even in villages farmers do not trust each other" (Hans).) There is not enough space here to elaborate the historical reasons for this phenomenon. Notably, in rural societies—and Serbia has been one until very recently—trust relations are limited to the closest environments (family and village, at best). Furthermore, even this limited form of trust was destroyed under socialism, which combined command authority with fragmented and atomized relations and gradually removed the basis of former trust relations, changing the society from rural into a predominantly urban type. Naturally, events during the last fifteen years did not favor the building of new forms of trust among people and Western respondents easily detected that it was missing. Furthermore, it is important to add that similar remarks concerning trust were also made by local respondents. At the same time, there exist more surprising inconsistencies concerning this topic: a low level of trust does not imply a high level of cheating, or widespread dishonesty. Quite the opposite: Western respondents, especially those with extensive experience in dealing with people in Serbia, found no difference between the local and Western population, business partners, and so on in terms of their practical behavior.

We're selling our goods to a network of 120 service shops. I had negative expectations concerning Serbs in that I would face serious problems in being paid. But the big surprise was that people fulfilled their obligations. During these five years we haven't had any problem in collecting money, which shows these people from small private companies are as trustworthy as in Sweden (Peter).

This discrepancy may be explained by pointing to the difference between the two types of relations present in contemporary Serbia: relations in the sphere of the market economy (private sector) and relations established in dealing with the state as the immediate successor of the socialist regime. Our respondents regularly found the type of trust relations they had become accustomed to in the West inside the former sphere, while inside the latter uncontrolled corruption, intertwined

with inefficiency, was widespread according to both Western and local interviewees.

Western respondents also noticed other elements of pre-modern relations in Serbia, such as the local people's attitudes to time and money (concepts that are intrinsically connected in a Western market society). It is interesting that three of our respondents used the same word to describe how they see local people treat time: they called this manner "relaxed." ("I noticed a more relaxed relationship towards time here, which is frustrating in some situations" (Hana).) It may seem obvious that a non-market economy (and society) in socialism upheld the traditional attitude, according to which "your obligations wouldn't run away from you," if you took a break (as the saying went in Serbia). However, this did not mean that local people failed to perform their obligations in TRDP or did not perform their duties on time. This only meant that local people inefficiently used the time available for a job and thus were forced to work at home or spend longer hours at the office.

The consequence of this time inefficiency is due to the habit in Serbia of not separating the business and private spheres. This represents a very important difference between Western and local people, according to our local respondents. Yet, it was fascinating to discover that, according to one of the local respondents, Westerners were the partners in TRDP who adjusted to the local ways of treating time. The relationship toward money in Serbia is also described as being "relaxed" compared with Western habits. Namely, as the respondents stated, even if local people are comparatively poor, they do not use savings in a rational way, like investing money into businesses. Instead, they build houses (larger than necessary) or spend their savings on celebrations.

The relationship toward money is very different in Serbia and looks strange to me. People cannot afford much. But sometimes it really amazes me that people are ready to spend 500 euro for a party or they buy a new mobile phone even if the old one's very good (Hana).

It is not very difficult to explain such differences. Private investments were still very risky in Serbia (especially small ones) and status consumption (in pre-modern forms) retained an important place in building someone's stratification position. True, differentiation between the public, the private, and the personal was not developed in Serbia, even in the field of property relations (including money). The collectivist

form of ownership in socialism (which was built upon the pre-modern form of common property in Serbian villages—the so-called *Zadruga*) was largely changed into a private form in semi-legal (plus illegal) and semi-legitimate (plus illegitimate) processes during the civil wars and blocked transformation in the 1990s,⁶ so that the norms and values safeguarding property did not fully develop. This is the difference between the Western market society and Serbian proto-market society that our local respondents clearly understand. Equally significant is the fact that local respondents were able to understand the irrationalities of “rational” (meaning calculable) spending of money, when the procedure becomes much more important than the goal.

Precisely this primacy of “substantive” over “formal” patterns of thinking offers the basis for the positive evaluation of a few local habits by Western respondents. It is very important to note that positive evaluations mostly refer to spheres outside the economy and are, moreover, counter to market patterns. These habits also represent the remnants of the traditional way of life, in which work served as a means to secure a decent living and was not a goal in itself superseding all other aspects of life (in order to secure higher work efficiency).

Finally, one may ask how people coming from different cultural backgrounds adjusted to each other. It would be wrong to suppose that we are here dealing with only two (clearly separate) traditions—local and Western. As I already mentioned, it is possible to distinguish a number of cultural patterns in contemporary Serbia, produced by influences coming from the Eastern (the Ottoman tradition itself is complex) and Western traditions, and blended during the process of late modernization and nearly a half century of socialist production of social life (which left its own imprints on culture). Furthermore, Serbia was passing through an intense systemic change during the time TRDP took place, which included institutional as well as normative and value change (oriented toward inclusion of the country into the democratic, capitalist—Western—world). Therefore, the process of adjustment has also had several different tracks depending on the personal histories of our respondents.

The shortest and most direct way to adaptation was covered by our local respondents who came to work for TRDP from Belgrade and were equipped with university education, prior contacts with people from

⁶ For the origins of new entrepreneurs in Serbia, see Lazić (2000).

other cultures and previous work experience in the private sector. They hardly needed to adapt to Western cultural patterns. Even the lack of experience of working in a market economy did not represent too big an obstacle for urban educated respondents. People of this kind faced a deeper gap in cultural terms when confronted with Topola's rural surroundings, which differed from their experience almost as much as was the case with Swedish or Australian respondents. On the opposite side were people who could not adapt to the new type of requirements and who left TRDP. Of course, in between these opposite groups there were different categories of people who had to adapt—and managed to adapt—to TRDP's norms, rules, and organizational forms if they wanted to get a job and keep it (in the case of "insiders") or to receive various forms of donations (in the case of "outsiders").

However, some Westerners who came to work in Topola progressed further in adapting and stayed for some time. We can differentiate between adaptation at the personal and at the organizational level. An example of the first type may be the process of learning how to react to local people's often aggressive forms of speech and behavior. What was more important, however, happened at the organizational level, where adaptation took forms that deviated even from legal principles that the respondents had been following in their own cultures. The "line-organization" was abolished and a strict hierarchy was implemented inside TRDP. Westerners at TRDP also began to shift from impersonal to traditional, "personalized" relations with local business partners. Furthermore, because of the different legal frameworks, some administrative procedures inside TRDP had to be organized in parallel ways, in line with both Western and local practices. A more drastic case is, however, the adjustment to illegal business practices, forced upon the whole Serbian economy by wars and international sanctions. The casual attractiveness of "less rigid" local customs to Westerners did not pass unnoticed by the local respondents.

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Part 3

Economic Knowledge: Does Anything Go?

Have Polish Economists Noticed New Institutionalism?

Jacek Kochanowicz

Introduction

Institutional economics has risen in parallel with the decay of state socialism and the beginnings of the post-communist reform process. At first, an institutional approach appears highly relevant to the challenges the societies have faced emerging from state socialism, as it offers a perspective that allows an analysis of what was wrong with the old regime in terms of its economic performance and what might have been done to make its performance better. Surely, institutional economics and especially its new versions should have been welcomed in post-communist countries, as the fall of state socialism brought about the challenge of institutional reconstruction.

But has institutional economics flourished in post-communist Poland? So far this does not seem to be the case since the number of related works are limited in comparison with the overall amount of academic works published in the field of economics in Poland. By no means has this approach been institutionalized in the form of journals, research projects, or teaching programs.

How can this be? We shall try to answer this question by looking at the legacies and context of economic thought in Poland, at the character of institutionalism before and after the collapse of state socialism, and at the role of its new versions in the transformation. The thesis of this case study is twofold. First, it argues that a possible development of new institutional economics has been crowded out by the neoclassical/neoliberal approach, adopted for both intellectual and ideological reasons. Second, the relatively weak presence of new institutionalism in publications of academic character does not mean that it has not been present in other forms, as an institutional way of thinking showed itself in the practice of reforms.

Legacies and Context

Since the end of the 1940s, Marxism played a dominant ideological role in Poland. Apart from the Stalinist period (1949–56), intellectual life—in comparison with other countries of state socialism—was relatively open in Poland. Academics were allowed to travel abroad, albeit with restrictions. Western books and journals were available, although not without obstacles. A rigid, doctrinaire Marxism was often ignored, though rarely challenged openly. Rather, between 1956 and 1968, intellectuals flirted with an open version of Marxism emanating from the West. After 1968, Marxism ceased to play much of a real role, and only had a token symbolic value.

Economic thinking in Poland did not evolve in isolation from the West. Certainly, a number of scholars who received formal economic training before the Second World War were still active until the end of the 1960s, and even made careers in the West, the two most well-known being Oskar Lange and Michał Kalecki. Many other Polish economists were involved in the workings of international organizations like the International Labour Organization (ILO) and the Food and Agriculture Organization (FAO) and in advising in the Third World. After the gradual post-Stalinist thaw, a number of academics were receiving scholarships to study in the United States. Meanwhile, many important authors like Arrow, Galbraith, Hicks, Keynes, Leontieff, Lewis, Leibenstein, Nurkse, Samuelson, and Solow were translated into Polish and published officially. As Professor Zbigniew Hockuba, himself an institutionalist and a representative of a generation of economists who started their careers in the late 1970s, notes:

Poland perhaps was a unique case among the socialist countries, as [our] economists had numerous and close contacts with their Western colleagues... However... while in the scientific and theoretical [dimension] a certain influence of western economics was visible, in teaching we were working according to the earlier pattern until the end of the eighties.

The knowledge of Western economics did not preclude the acceptance of socialism. Until well into the 1970s, a consensus among the majority of economists prevailed that some form of socialism was a viable and desirable solution, although the actually existing regime needed a far-reaching change. In this respect, Polish economists were in tune

with opinions common in the West at that time, according to which governments should intervene, plan, and co-manage the economy in order to achieve sustained growth, full employment, and a fair distribution of income. In the West, this consensus started to erode in the 1970s when neoliberalism replaced Keynesianism.

Also in Poland, belief in market socialism was on the wane, along with the revisionist versions of Marxism. Among the reasons for this was a disillusionment with “real socialism,” culminating after the anti-intellectual and anti-Semitic government campaign in 1968 and after the shock of the Soviet intervention in Czechoslovakia. Also the age structure of the community of economists changed. This can symbolically be summarized as the generation of Lange and Kalecki being replaced by that of Balcerowicz. Many members of the latter, having received their basic training in Poland, managed to spend time abroad, often in the United States. Professor Zbigniew Sadowski, a representative of the older generation of economists, editor-in-chief of the influential journal *Ekonomista*, and president of the Polish Economic Association, remembers:

I would argue that, generally, what is going on in the Polish economic thinking and among this whole generation of the Polish economists is a result of Ford Foundation scholarships. The Ford Foundation has played a very important role. In that period, we had quite a lot of people, who went through this.

The generational change, coupled with the popularity of neoclassical economics and neoliberalism, resulted in a shrugging off of the traditions of thought related to Kalecki and Lange. Sadowski observes that the “ideas of Kalecki are popular in the world at large. However, in Poland, there is no interest in them whatsoever.” Speaking about Lange’s scientific interests, Sadowski notices that, because of their large variety, there are many threads of his thinking that could be picked up and developed, but Lange was too much to the left and too involved in the communist politics to be acceptable. There were even attempts to delegitimize him by alleging that he had had close connections to the Soviet secret service. The irony is that Lange, while staying in the United States, was put under surveillance by the FBI (in 1941), but the Bureau never found any reason to accuse him of spying (Prażmowska 2005).

The new generation of economists also tried to keep close contact with the West. They read Western economics literature and traveled to

the West on scholarships and increasingly were involved in advisory work. At the same time, there was a tremendous gap between them and their predecessors in both epistemological and axiological terms. While the former accepted the socialist idea and the Keynesian framework of thinking, the latter rejected them. As the proverb goes, *they were products of their times, not of their fathers*.

Thus, the seeds for a neoliberal turn were already sown by the 1970s and 1980s. The young academic and professional economists who—in a famous formulation of Brus and Laski (1989)—moved from Marx to the market were not the only agents of this change. Independently, this new climate was also a product of the self-styled liberal political writers, particularly in Gdańsk and Kraków (see Szacki 1995). They argued against the mainstream Polish democratic opposition, particularly, against those who gravitated toward KOR (the Committee for the Defense of Workers, 1976–81). The mainstream stressed human rights and shared social democratic values. The Gdańsk and Kraków liberals argued, however, that working towards a political liberalization is not enough to achieve a substantial system change. They held that a necessary condition of freedom is the free market, and that its gradual introduction is conceivable under the then authoritarian phase of state socialism launched by martial law in 1981. The importance of these milieus— and particularly the Gdańsk liberals who managed to institutionalize themselves around the *samizdat* journal *Przegląd Polityczny* (Review of Politics), and after 1989 around the Institute of Market Economy and the Liberal Democratic Congress party (KLD)—is twofold. First, their ideas had no trace of Marxism or socialism, as was the case with many professional economists coming to economic liberalism from a reformed socialist perspective. Second, they were becoming influential due to their ideas on voucher privatization and also to the involvement of the major figures of their group in the reform process (Jan Bielecki became prime minister and Janusz Lewandowski minister for privatization) unfolding after 1989.

Thinking about Institutions before the Change

Set against this background, just how developed was the thinking of Polish economists about institutions? One current of thought that attracted attention in Poland in the mid-1980s was a sub-discipline of new institutional economics, the theory of *property rights*. Both this

theory and the privatization policies in the West, particularly in Britain under Thatcher, challenged one of the key assumptions held by the proponents of market socialism, namely, that of a feasibility of market without private property; in other words, a system in which there are markets for products, for intermediary goods, even for labor, but there are no capital markets.

In an early semi-official publication, Jerzy Strzelecki (1984) offered a comprehensive summary of the writings of the property rights school, hinting in its main conclusions that the idea, according to which the better property rights are defined, the more efficient the economic system, also has relevance for state socialism. How then, under the existing political conditions, can we approximate property? Perhaps through the creation of investment funds (Iwanek and Świącicki 1989) meant a number of economists in Poland. While publicly owned, they would be profit-driven and trade shares of enterprises among themselves. Another idea was to strengthen employees' self-government. Having a stake in an enterprise's viability would motivate managers to run it efficiently.

A comprehensive set of ideas was articulated by Leszek Balcerowicz (1990), the architect of the Polish economic reform of 1989–90, already known in Poland in 1981 due to his radical project of economic reform. His book of 1990, actually his *Habilitationsschrift*, was published when he held government office. It had actually been written earlier and was a result of many years of study (for years, he chaired a research seminar devoted to the workings of centrally planned economies). Very much in the institutional vein, it is a review and analysis of various economic systems, elaborated from the point of view of their efficiency, with the clear conclusion that a system based upon well-defined property rights is the most efficient. Balcerowicz was not the only Polish economist thinking along the lines of a critique of the then existing system from such a perspective. Another example is the writings of Jan Winiecki, criticizing the economic system of state socialism from an institutionalist (property rights) perspective (Winiecki 1988, 1991, 1997). While residing in Poland, he published mostly in the West, in the United Kingdom and in the United States.

Overall, the last decades of state socialism were marked by a gradual departure from the paradigm of market socialism, as well as a departure from the idea of feasibility of planning and managed growth. Thus, there was a visible break with the prevailing tradition in Polish

economics, as formed after 1956. In this context, the thinking in terms of the property rights school contributed to challenging the viability of a system based on state-owned firms. On a practical level, it provoked various ideas of some quasi-property as a next best possibility under existing conditions. In the long run, it prepared the economists to think in terms of privatization, which proved possible after 1989.

Institutionalism after the Change

After twenty years of change, institutionalism is, at most, of peripheral interest to Polish economists. Hockuba notes that it is difficult to find research centers focusing on institutionalism—one can only name individual researchers. The focus of attention is on mainstream economics. For this, Sadowski has an ideological explanation:

For years, we were under a dominance of mandatory [Marxist] doctrine, to which many people did not want to submit, but which nevertheless... had its impact. After the change of the system, there was a strong shift to another direction. The neo liberal doctrine has been accepted [and] until now it has had a very important influence on the way of thinking in economics and on the economy. To a degree, anybody trying to question this is in fact suspected of attempting to return to central planning.

Hockuba thinks that 1989 was a breakthrough. “The theories and ideas, developed and taught in the West, were quickly introduced and accepted. One can say that we were just catching up, that we were learning this kind of economy that was being developed there during the last several decades [...] We set the teaching curricula on a new track.”

According to Professor Michał Federowicz, a sociologist of the same generation as Hockuba,

the return to neoclassical economics was enormously attractive... and everybody has been turning to it as to the source of truth; the saturation point has not come yet. There is still a lack of differentiation, of criticism. [The point has not been reached at which] the young would feel that there is no place for them in the mainstream and that they [have to] look for the niches.

The price of the pursuit of the mainstream has been a certain lack of originality. Sadowski notes that—except for a few really interesting

books—there is not much creativity. He mentions that *Ekonomista*, the leading Polish economic journal, even encountered problems with getting enough submissions. Hockuba agrees that the economic ideas in Poland have a somewhat derivative character, which is understandable, “as by adapting or creating a system of market economy, we have also introduced and adapted economic theories which explain and describe this system.”

In this context, publications that can be classified as “institutionalist” are relatively rare in the leading Polish professional journals. *Ekonomista* publishes around 12 to 16 articles annually, and about the same number of items under the heading of “miscellanea.” Articles devoted to the institutionalist perspective are barely visible (most of them are listed at the end of this paper). Similar is the case of other important but more specialized economic journals of nationwide circulation, such as *Gospodarka Narodowa* and *Bank i Kredyt*. The recently revitalized *Studia Ekonomiczne* devoted a whole issue (2004) to institutionalism but this seems to be an exception, moreover, while some papers in this issue are indeed focused on institutions, they do not apply a specific institutionalist perspective. Asked about the chances for a specialized journal, Hockuba does not predict success.

This limited interest in institutionalism may be surprising, given the fact that the whole transformation is about institutional change. Sadowski’s interpretation is that economists tend to focus on short-term economic policies, while building institutions requires a longer-term perspective. “Institutionalism, simply, requires a long-term view, but there is no place for that,” he says. He adds that even among those who do in medium- and long-term forecasting, there is little interest in an institutional approach. Hockuba, however, sees some possibilities for research in the future:

We have a comparative advantage as far as observations on what is going on in this part of the world are concerned, in particular insofar as systemic, institutional change is concerned. The development of institutional economics preceded transformation, but it turned out that its tools are well suited to the analysis of what is going on here.... Would Polish economics study these problems in a more intensive way, using these tools, it might achieve original results. As of today, there are not many original results, but there are chances and possibilities.

Dispersed Topics

Indeed, the concept of “institutions” is mentioned quite often in the works of Polish authors, which is not surprising, taking into account the vast scale of institutional changes that have taken place. In many, if not most of the cases, however, this concept is applied in a rather loose and intuitive way, without direct reference to new institutional economics and to the theories that belong to it, such as the theory of property rights, the theory of agency, or the transaction-costs theory. Such is the case with the otherwise interesting article by Gomułka (2004) on the “institutional basis” of the monetary authority.

The fact that the term “institution” is so often applied in a loose, intuitive way does not mean that there is no awareness of these schools. Quite on the contrary, as is shown by a number of publications describing, digesting, and summarizing their main characteristics for the Polish scholarly audience (Chmielewski 1994; Filipowicz and Opawski 1992; Godłów-Legiędź 2003; Greif 1999; Hardt 2000, 2004, 2005; Hockuba 2001; Mazur 1991; Nowak 2004; and Ząbkowicz 2003). Some of them offer a very thorough and detailed analysis of institutionalism like the paper by Wojtyna (2002) that compares two visions of transformation: the Washington Consensus and the evolutionary-institutional one. Some, like Kołodko (2004), stress the role of informal institutions and culture and the difficulties of changing them.

Among the works in which the authors go beyond a summary of the discipline and attempt to look at specific problems from an institutionalist perspective, one can mention *general studies of transformation* (Hockuba 1995, 2000, 2001a; Noga 2004; Okólski and Sztanderska 1996; Wilkin 1995; Winiecki 1997). Wilkin, author of one of the earliest Polish publications looking at the transformation from an institutionalist point of view, argued that—contrary to the claims of the radical neoliberals—there was indeed a possibility of choice as to the type of capitalism Poland could strive to build, as well as to the extent of the market, to the role of the state, and to the sequence of reforms. Taking inspiration from Polanyi, not only did he stress the role of institutions as such, but also the need for their social embedment. Similar are the views of Tadeusz Kowalik (2005), perhaps the most prominent critic of the Polish transformation from the social democratic position. Hockuba also, in a relatively early publication (1995), treated transformation as a process of change to an order of spontaneous regu-

lation, and described change as chaotic by necessity. Sztaba (2000) applies the new institutional approach in a systematic way. Interested in what factors explain choosing a particular set of formal institutions, he explains how institutions were shaped in Poland after 1989, ranging from the institutions left over from the state socialist period, through the pre-communist institutions that were revitalized in the process of transformation, to those copied from the European Union, as well as those the introduction of which stemmed from theoretical considerations. Metelska-Szaniawska (2009) looks at the transformation from the angle of constitutional economics and argues that the more decentralized a system of power is, the better protected are rights; and the stronger the constitutional tribunals, the more stable is the reform process. Her work is a rare case of an empirical study. She supports the theoretical argument by an extensive econometric comparison of over 25 post-communist countries. Milczarek (2002) also tests various institutional theories in an empirical study in the case of the privatization of state farms in Poland. She concludes that the managers of state farms had enough bargaining power to allow them to influence the rules of privatization and to obtain distributional gains in the form of ownership or leasehold of the former state farms. Thus, her study supports the distributional theory of institutional change developed by Knight (1992).

Ząbkowicz's book on Chile (2001)—while not an explicit comparison with Poland—looks into another case of transformation and shows how a radical neoliberal policy initially had a negative impact on growth, but at the same time started a social process of learning that—with a gradual political opening-up and improvement of the climate for cooperation—led to the revival of growth. She notes that, even under democratic government, the Chilean economic and political system is constructed in such a way as to diminish the possibility of redistributive coalitions.

Among those studying the Polish transformation, it is worthwhile to single out Lissowska, who seems to have more than a passing interest in applying an institutionalist perspective to the transformation. Her earlier studies, presented in the form of various papers (1999, 2000, 2001, 2004a, and 2004b), were collected in a book (2004c) in which she provided a thorough review and comparison of the institutionalist-evolutionary approach and the new institutional economics approach. She makes an interesting observation on the lack of interest by the

practitioners of these approach in the West in the post-communist transformation: "Contrary to what one might expect, such works were not numerous, and—as compared with the main currents of interest of scholarly associations in these fields [International Society of New Institutional Economics and European Society for Evolutionary Political Economy], these topics can be characterized as marginal" (2004c, 48). She focuses on three issues: changes in property rights, changes in the character of credit contracts, and on a more general topic of the impact of institutions on the order and speed of economic development in Poland. She finds that a lack of institutional stability, as well as difficulties in harmonious coordination, contribute to high transaction costs, to a low propensity for innovation, and to an avoidance of partners who do not have a well-recognized trademark (126–7).

The Polish authors also look at institutions when discussing more specific topics, such as economic growth (Gruszevska 2004; Kołodko 2004; Wojtyna 2002), economic policy (Horodecka 2001–2), industrial enterprises and industrial policies, foreign trade (Tyrowicz 2004), regional development (Karpińska-Mizielińska and Smuga 1997), financial intermediaries (Mesjasz 1999), and the informal economy (Kozłowski 2004). Once again, many works tend to confine themselves to summarizing the state of the art in the West, as is the case with Gorynia (1999) and Gruszecki (2001). Wojtyna (1994) goes somewhat further: after describing the institutional approach he analyzes the actual process of industrial restructuring in Poland. An earlier paper by Gorynia (1996) sets out an agenda of a possible liberal-institutional industrial policy.

Reforms of the social services and transfers also inspired some work regarding the *concepts* of institutions. One of the leading experts in the field, Golinowska (2000), in a description of general patterns of change, employs a rather loose definition of institutions. Sosenko (1999), stressing the importance of politics in social reform, makes an explicit reference to theories of public choice and to new political economy.

The Sociologists

In contrast to economics, the institutional approach is quite popular among Polish sociologists. Morawski (1998) offered a comprehensive interpretation of the transformation, looking at it from an institutional perspective. Traces of this approach were visible as early as the 1960s

among sociologists interested in how the state-owned enterprises really worked (Hirszowicz 1967; Hirszowicz and Morawski 1967; Staniszkis 1972). Polish (particularly Warsaw-based) sociology after 1956 developed in close contact with American sociology, as much as was possible under the relatively open political system (cf. Bauman 1964a). Like with the economists, sociologists were allowed to travel and could follow scholarly developments in the West. Additionally, during that period, many important books were translated into Polish and there were serious discussions on the relationship between Marxism and contemporary sociology (Bauman 1964b; Hirszowicz 1964). Thus, the American sociology of organization was a natural frame of reference at that time, whereas adherence to the official doctrine was merely symbolic.

The interest in how enterprises—as organizations—work prevailed even after the collapse of state socialism. Sociologists working on such topics turned—as Federowicz (2004) observes—more and more towards an institutional approach: “The sociologists became irritated by the simplifications, which the theory of rational choice requires, and this is why they started once again to talk about the social institutions, showing that they are something else than the economists imagine.” For him, that became clear while, in the course of his research, he faced the hostility of social actors at the enterprise level to economic reforms; a hostility based on these actors’ understanding of their own interests.

The Institutional Approach and the Reforms

To what extent were the reforms, initiated in 1989 and continued since, guided by a conscious institutionalist approach? Hockuba thinks that the changes in the scientific approaches “had, to a large extent, a spontaneous character.” While institutional economics was important, it took time to gain recognition. The debates, unfolding at the beginning of the 1990s, referred mostly to macroeconomic theories and were concerned with other problems (for example, whether to apply “shock therapy” or a gradual approach) and were not conducted in an institutionalist spirit. Federowicz also agrees that there was no systematic institutionalist reflection when the reform process began.

This might not be entirely accurate. If institutionalism means a conscious consideration of relations between “rules of the game” (incentive structure) and the behavior of economic actors, then it is fair to say

that it was quite present in the case of the early stabilization and liberalization policies. The aim of these policies was to change the behavior of state-owned enterprises (forced to restructure through “hard budget constraints”) and households (through changes in labor markets and consumer markets), and to provide positive incentives for local and foreign entrepreneurs. Balcerowicz and his team, who designed these reforms, were looking on the whole task from an institutionalist perspective that they had developed earlier (Balcerowicz 1990, 1992, 1995b), the importance of which he stressed in his popular writings (Balcerowicz 1995a).

But there are contrasting examples as well. The administration of justice reform was guided by the ideas of *separation of powers* and *independence of the judges*, thus giving them far-reaching professional autonomy and power. Perhaps because the discipline of economics-of-law did not exist in Poland, this reform brought, unintentionally, a decrease in efficiency in the system of justice, in particular, it resulted in dramatic delays in accomplishing the courts’ work. In the case of social reforms undertaken at the end of the 1990s, a systematic analysis of the possible behavior of actors was made in reforming pension schemes, much less so the health and education systems (Kochanowicz, Kozarzewski, and Woodward 2005).

More generally—and it is hard not to agree with Federowicz in this respect—there has been a deficit of reflection on the state. He says: “Only now we start a systematic study of the state. Governance as a problem appeared only a few years ago and only due to a small political breakthrough started by the Rywin scandal.”¹

Concluding Remarks

This paper suggests three conclusions. First, while institutions have often been mentioned by the Polish economists, and although they understand the importance of institutions, there has been little systematic approach to these, particularly concerning new institutional economics. There are no specialized centers of study, no journals, no sec-

¹ In 2002, film producer Lew Rywin offered Adam Michnik, editor-in-chief of *Gazeta Wyborcza*, help in passing through Parliament a bill favorable for Agora, the *Gazeta* publisher, requesting a USD 17.5 million bribe in return. The publication of this story by *Gazeta* triggered off a gigantic political scandal.

tions in associations, and very little participation by Polish economists in the activities of the international organizations dealing with this field. Only a handful of researchers concentrate on institutions as their main focus of study, and for others this seems to be a passing interest. Thus far, there has been little in-depth empirical research based on this approach. In other words, the study of institutions has not yet been institutionalized. Characteristically, this seems to reflect the limited interest of Western institutional economists in the post-communist transformation. The reason why institutionalism attracted so little attention among the Polish academic economists seems to be that their sights were set on the mainstream.

Second, while there has not been that much academic interest in institutions, their role and importance were highly appreciated in the practice of transition policies. But the way in which the actual institutions were being reconstructed—or constructed from scratch—was not based on ideas taken from new institutional economics, even when the architects of these reforms were aware of its contributions. The reforms were rather done through an *ad-hoc* redesign of what existed through reviving prewar regulations, by the imitation of Western models, and finally through the recent implementation of the *acquis communautaire*.

The third and final conclusion is of a more general character and relates to the ways in which ideas produced in the West have been assimilated in Poland during and after the period of state socialism. Economics and sociology as social sciences belong to “high culture,” and Polish high culture was always Western oriented. The intellectual links with the West were severed during Stalinism, but it lasted for only six to seven years. Afterwards, these links were reestablished to the greatest degree possible under a communist regime which, when compared to other socialist countries, was relatively lax and open. As a result, the fall of communism was not such a watershed as it was in the realm of politics and economy. The change from a more state-centered to a more market-centered view of the efficient economic order had already begun in the 1970s, following the epistemological and axiological shifts in the West, and long before the ultimate collapse of state socialism. Of course, new Western ideas were only assimilated by a relatively thin stratum of intellectuals and professionals. Still, this mattered, as it made the intellectual passage after 1989 relatively smooth.

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* Ms. Paulina Kocia, an MA student at the Faculty of Economics, Warsaw University, helped the author collect this reference list.

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The Sinuous Path of New Institutional Economics in Bulgaria

Roumen Avramov

Mapping the Field

Until 1989, New Institutional Economics (NIE) was a paradigm almost completely ignored by the social sciences in Bulgaria. It was occasionally mentioned in papers on the history of economic thought. A scrupulous bibliography would maybe detect some remote reference in the texts of sociologists or philosophers. The research community was a bit more familiar with the “old” institutionalist school (namely, with its economic dimension), which had entered Marxist textbooks through a dogmatic interpretation in the traditional “critique of bourgeois economic ideas.” Some of the classics (like Veblen) were accessible in Russian translation, while libraries owned unsystematic collections of texts from the first half of the twentieth century. None of those relics, however, had any significant incidence in the agenda of economic research. Institutionalism provoked, at most, a certain curiosity or provided subjects for doctoral theses. Economic policy was based on totally different premises; the political economy of reforms—although a perfect institutionalist case—was never approached in institutionalist terms; and applied studies were oriented towards more visible issues.

With the onset of the post-communist transformation and—eventually—with the voicing of doubts about the Washington Consensus, NIE started to acquire a certain notoriety in Bulgaria. This development ran parallel to the consolidation of the school worldwide, marked symbolically by the Nobel Prize received by Coase (1991) and North (1993) and by the establishment of the International Society for New Institutional Economics (1997).

Currently, NIE-type thinking is present in various forms in Bulgaria. The first layer is made up by a small number of academic publications explicitly devoted to New Institutionalism (NI) or overtly sharing its principles. This is complemented by a larger set of texts dealing with topics cultivated by NIE: although the studies do not always refer

directly to this school, the prominence of those topics is (at least partly) attributable to their long-lasting exploration by institutionalist authors. The main fields are ownership/privatization; informal economy; corporate governance; social capital; political economy; economic culture; entrepreneurship; values; regulatory policies; and transaction costs.¹ There is no systematic record of Bulgarian authors' publications abroad, but it could be assumed that Bulgarian researchers publishing in international journals follow the general pattern of distribution among different intellectual currents. Concerning doctoral theses, NIE is almost missing.² Finally, a few relevant books (about 15 titles during the last decade) deal with informal economy, entrepreneurship, and corruption. The only translations of NIE classics are North's *Institutions, Institutional Change and Economic Performance* (1990; translated into Bulgarian in 2000) and two papers by North and Williamson.

A more promising trend seems to be the emergence of a second layer of reception: NGOs (or even business consultants) proved to manifest a clear preference for selected NIE topics. These organizations and experts fill a number of niches and seek out access to broader media coverage. Far from being "canonical" institutionalists, they produce outlooks, surveys, and analyses that are at least partly influenced by NIE principles or gather rough materials and data relevant to the paradigm. In a few cases NI is conceptually interiorized, but even when implicitly transmitted, these studies promote a NIE-like point of view. Their public impact is greater than that of academic publications.

The last hypostasis of NIE is recognizable in a few university courses devoted to this school of thought. Only one of them (Georgy Ganev, Economic Department, Sofia University) proposes a fully articulated curriculum. It introduces NI in the context of neoclassical economics, makes an overview of economic history, brings in the key concepts of

¹ The majority of those papers are from Bulgarian scholarly journals: *Ikonomicheska misal* [Economic thought] and its supplement *Ikonomicheski izsledvania* [Economic studies]; *Soziologicheski problemi* [Sociological problems]. Forty-seven NIE-related titles from those journals (2.8 percent of the total) are identified among more than 1,600 papers published in *Ikonomicheska misal* (1991–2009), *Ikonomicheski izsledvania* (1996–2009), and *Soziologicheski problemi* (2000–2009).

² Six NIE-related doctoral theses out of 96 in the field of economic theory, history of economic thought, and sociology were defended in 1994–2009.

transactions costs, institutions, mental learning/models, and comprehensively discusses North's model of institutional change. A special portion is dedicated to the institutional analysis of Bulgaria's economic transition. The other course (Ninel Kiosseva, New Bulgarian University) is more oriented to economic history.

NIE's presence in the Bulgarian landscape of economic science is still incoherent and lacks a critical mass. It can hardly be considered a compact current able to counter the dominant influences of neoclassical economics and the eclectic/descriptive works that constitute the bulk of the published texts. NIE is rather an archipelago of heterogeneous components with differing weight, impact, and institutional support. The visibility of the paradigm is not high, but its potential to permeate the economic views in Bulgaria exceeds the perceptible segment. NIE offers approaches that look attractive outside the strictly academic milieu, that interest those uncomfortable with one or another mainstream model, and that are intuitively appealing in the discussion of reform projects. In any event, NI did not guide the design of the reforms but occasionally served as a loose frame for the interpretation of their outcomes and failures.

Questioning the Actors

The transfer and reception of NIE in Bulgaria have also been examined by means of interviews with four scholars claiming affinity to this paradigm. One of them is a Ph.D. from Washington University in St. Louis, Missouri where he has been a teaching and research assistant to Douglass North. Another respondent is the head of a strongly pro-market NGO that has organized several research projects, largely based—he asserts—on New Institutional Economics. The third interview is with a university professor of economics who is involved with professional associations that are related, in one way or another, to NIE ideas. Since sociological research in Bulgaria is traditionally more exposed to institutionalism than economics, a sociologist whose research is on the cutting-edge of economic topics was also interviewed.

Personal Trajectories. The interviews confirm that there are a variety of paths to conceptual association with NIE. The most direct path (found by chance) has been via personal contact with Douglass North. But in most other instances, the search followed more sinuous

theoretical tracks. For one of the respondents, the new orientation is also related to a term in an American university, although the prevailing school of thought there was mainstream and neoclassical. In another case, the roots can be traced back to the 1980s, when a philosopher by training came across the problems of the philosophical foundations of economic life and of individualism in theoretical sociology. Later during the 1990s he entered the field of economics through institutionalism. Finally, the sociologist found her way to NIE at an economic sociology conference, when she became interested in the problems of informal economy.

The most distinctive feature in those trajectories is that they led to a fuzzy (loose) identification with NIE. "Everyone comes with his/her background and considers NIE something alien." The association with NI is tolerant; there are no "aggressive adepts." NI is seen as a possible (not the exclusive) theoretical approach. It is appreciated for some of its relevant insights and/or techniques. There is a propensity to consider NIE as an intrinsically "free" domain where boundaries are more easily transgressed and where the rigidity inherent in Marxism or other parochialisms is absent.

A softer attitude to theory is characteristic of the respondents. They avoid definitive theoretical choices and like flexibility. Even when convinced of the intellectual strength of NIE, they demonstrate a readiness to find the appropriate conceptual framework, methodology, or instruments for every specific topic. If NI does not fit well it can be (temporarily) abandoned. The opposite position is also valid: the theory can be applied from time to time, as needed. "There is no inconvenience in declaring oneself a follower of one or another theory. The wise man keeps under control the instruments and the concepts he utilizes." This rather utilitarian attitude toward theory is usually justified by the extraordinary social and economic dynamics of the transition.

It is thus not surprising that some of the respondents are quite eclectic. What they often talk about is neither—strictly speaking—NIE nor even institutionalism. Economists of a very different stripe are easily associated with institutionalists: Hayek, Becker, North, Veblen, Friedman, Olson, and Polanyi, for example, have all been quoted together. One of the respondents considers himself an *institutionalist with an Austrian bias*.

A Proxy Theory. The softer theoretical stance of self-proclaimed NI economists reflects a common source of their interest. As a rule,

NIE is (implicitly or explicitly) considered by most of the interviewed as a *proxy theory* that fills presumed gaps left by “conventional” economic thinking.³ After all, this motivation is not far from what instigated the American Institutional School, and earlier on, the German Historical School.

In the observed cases, however, the move seems rather intuitive. A symptomatic story is that of an NGO claiming to work in line with NI patterns. The impulse came when the organization started to consult banks that were planning to invest in Bulgarian debt. “Initially they paid attention to purely macro-economic parameters. Their interest, however, soon shifted entirely toward institutional and political issues. They realized that the only knowledge that matters is the assessment of public attitudes, the political risk, budget voting and the incidence of those on macroeconomic policies.” NIE in this case is easily conflated with political science.

Awareness of the economy’s complexity, as well, follows the NI approach. The common statement that “economic decisions should be explained by psychological, cultural, and/or other features” is the usual argument to look beyond traditional economic wisdom. NIE is finally quoted as being considered trendy or a kind of escape from the shortcomings of mainstream economics: “an alternative rhetoric that became modern after the collapse of the Washington consensus. Together with the exhausting of ‘classical’ transitology (liberalization + privatization + good governance) the importance of institutions was revealed.”

It turns out that NIE is frequently perceived as a painless emancipation from the severe neoclassical fetters. The appeal of this school is strong in a professional milieu that is unused to the stringent technicalities of neoclassical economics, and susceptible to “speak without facts and testable hypotheses.” The charm is even stronger in the turbulent and fragile reality of the transition, in a sense a golden age for institutionalism. In this simplistic form it is generally understood that NIE emanates a tempting attitude of straightforward intellectual liberty.

³ The terms conventional thinking, dominant theory, or mainstream designate the knowledge produced in the leading research centers, published in refereed journals, subject to critical evaluation and change of paradigms. Concerning economic theory, in a very broad sense these concepts are currently associated with the neoclassical principles.

This view is basically wrong, since NIE is in fact a rigorous paradigm. It is the emanation of the Chicago School “economic imperialism” which uses strict neoclassical economics to explain areas that have stayed for a long time outside its field. The point was made by one of the respondents who observed, “NIE complements (with more realism) neoclassical economics, but is in no way its alternative.” Bounded rationality, we were reminded, is a purely neoclassical device. Instead, the prevailing way of thinking among the interviewed is old “institutionalist imperialism,” trying to apply methodology of other social sciences to economics. A symptomatic *lapsus linguae* is that most of the respondents talk about institutionalism, not about the “new” one. For others the relationships with mainstream economics is a non-issue.

The soft stance vis-à-vis NIE is also present in the attitude to quantitative methods. It is true that “NIE is not able to develop the beautiful mathematics and empirics of neoclassical economics, and that it introduces complications that are not yet correctly dealt with mathematically (except for game theory). NIE does not generate first-rate empirical models—it is too close to economic history; case studies abound at the expense of econometrics.” But quantitative economics is not at all alien to NIE, while in Bulgaria this track is virtually missing. The discussion on this issue, instigated by one of the respondents, remained in the vague terms and style of the old socialist-period controversy about the appropriateness of using those techniques. The prevailing position is that over-mathematization is harmful or that “qualitative methods are definitely superior.”

The nuances of NIE’s internal dynamics are appreciated by but a few scholars. The debates are mostly registered without further elaboration. Even while acknowledging that NIE originated in the USA, this school is not perceived as exclusively American. One of the respondents insisted on the importance of European contributions, case studies, and conferences. The sociologist interviewed has been influenced by a Russian approach to the informal economy. As a deviation from standard rules and behavior, informality is, by default, a natural platform for NIE.

NIE (more correctly, institutionalism) is a proxy theory in one additional—and quite specific—sense. It turned out to be a relatively undemanding sublimation for Marxist economists who were unwilling (or unable) to convert to mainstream economics. With all the funda-

mental differences between the two theories, some common points can be identified. They have been enumerated by one of the respondents: the key role of property; the importance of the stages of development; as well as the dynamic nature of both Marxism and institutionalism as opposed to the static character of neoclassical economics. A basis for ideological empathy can be found in the criticism of neoliberal ideas by Marxism and the criticism of neoclassical thought by institutionalism. Another interviewee defined Marx as an *institutionalist to a certain extent*. However, "it is typical for Marxism to evade complicated questions, to look for simple schemes and a mechanical formula that address economic problems without requiring social action. Institutionalism is more complex and therefore mimicry from Marxism seems not so likely." The fact is that in Bulgaria there is some revival of interest in Marxism. According to the (young) economic sociologist, this theory appears both novel and challenging to students, although Marxism is a difficult topic to teach and understand. Texts presented as NIE (by one of the respondents) hardly veil the underlying relicts of the notions, jargon, and logic of Marxist political economy. Finally, cognitive models (as applied by a respondent) have also revealed the profound roots of Marxist-like schemes in everyday economic reasoning.

Making Use of NIE. Given the general attitude to NI, its Bulgarian mien is not overambitious.

Evidence from the interviews suggests that the typical approach has been to transplant a set of institutionalist concepts and (in some cases) to try to "operationalize" them with local data. As elsewhere in "peripheral" economic science, the habitual epigonism/creativity dilemma emerges. In this particular field, "a theoretical endeavor in Bulgaria is impossible," according to one of the respondents. "The main institutionalist concepts are built upon a long history which is non-existent here—a critical mass of institutions and/or investors with a long tradition is missing, thus, a single big company is in a position to change the macroeconomic landscape, while the ultimate causes of economic events are often reduced to 'kitchen explanations.'" Epigonism is presented as an unavoidable eclectic superposition of schemes that work in some places on contexts that are basically different.

As another interviewee put it, "originality is scarce not only in this country but worldwide. North, Williamson, and Coase are followed everywhere and it is natural to go after the 'modern' theory." When

local idiosyncrasy starts requiring more concrete answers, however, increasingly creative approaches will probably emerge. It is easy to declare that “less government is needed,” but things become complicated when “the specific size has to be quantified.” It is precisely in clashes with the authorities transferring economic orthodoxy that the appeal of institutionalism is higher. The critical attitude to the International Monetary Fund (IMF) is archetypical in this respect, while the World Bank is sometimes seen as a friendly vehicle of institutionalist principles.

Various NIE notions surface in Bulgarian research publications. Assessing path dependence through cognitive models or introducing zero-sum models, for example, are said to offer a satisfactory sketch of what is happening in the country. An account was made of a doctoral thesis in sociology exploring the informal economy and employing North’s concepts of institutional change (to appraise the consistency of Bulgaria’s transition) and uncertainty (to explain the “drive to informality”). In a more empirical mood, property rights, cross-subsidies, transaction costs, costs of entry/exit, and informal markets (foreign exchange, labor) for a group of Balkan countries were studied by an NGO. (The results have been widely quoted by OECD.) “It appeared that such variables were more important than monetary policy.”

Overall, those theoretical models are applied as granted. None of them are critically analyzed, falsified (in Popper’s terms), or developed. They are simply transposed for instrumental use. NIE is not the best frame for constructing strict empirical models either. “Its tests are too vulnerable due to the bulk of assumptions and intuition. Institutionalism is overly contextual; it is better suited to the study of economic culture and the impact of the social milieu.”

But even in its looser forms, the institutionalist frame of mind is especially sensitive to discrepancies between mainstream theory and reality. This capacity is useful in the setting out of large-scale social changes. “NIE attitudes explain the political economy of resistance to reforms, identifies the most fragile points, and the adequate incentive structure.” The Bulgarian transition is rich in examples where those requisites have been overlooked despite the relatively coherent models proposed, in particular, by international financial institutions (IFI). Failures in the public health system, in the educational, or the labor market reforms belong to those almost unanimously quoted by the respondents. The inability to implement reasonable reforms highlight-

ed by “institutionalist” papers is perfectly in line with conclusions from interviews with experts in a government-based economic think-tank. They point out the difficult (almost impossible) dialogue between different branches of the administration concerning macroeconomic issues and the lack of capacity in apprehending the “general equilibrium” effects of the policies. Both shortcomings are visible aspects of the *institutional* constraints in reform-making.

The interviewed were asked to arrange the existing market institutions according to the proximity to NIE “ideal types.” The answers varied but were quite consistent in their emphasis on the degree of competition ensured by the institutional framework. On the positive side, the banking system, the debt market, the pension funds, information technology, and tourism were mentioned. Foreign investments and people (human capital) trained abroad were quoted as important trust-generating agents. Small achievements like a stock-exchange bulletin or other sources of public information were also referred to. In every field, it was said, “there are market institutions/agents that emerge spontaneously. Even the Ponzi schemes could be considered as ‘schools’ teaching accounting, investment rules, and interest rates.” On the negative side, property rights’ protection, labor markets, the heavily regulated land markets, and the real estate market were cited. One answer indicated the corporate sector as rapidly improving (due to the competitive and cultural shock of foreign investments), and the stock exchange as a still-undecided story. The picture is bleaker when the informal economy is taken into account. Unequal treatment in the markets is widespread and uncertainty is high. “There is economic freedom for the ‘big informals,’ not for the ‘small’ ones.”

It was observed that “what matters are not isolated institutions but their system and the links between them. An institutional hierarchy is a must that cannot be achieved when (like in this country) institutions are picked up from everywhere without any coordination.” The example conveyed “(an open violation of North’s view of the corporation as a system) was price liberalization in a context of completely unreformed firms.” The simple transfer of institutions is generally seen, by other respondents as well, as a superficial endeavor. “Harmonization is an old administrative tradition. It typically brings into line local institutions with relatively bad models.” Interestingly enough, institutional *export* is not ruled out, but the state lacks the capacity to exploit

its comparative advantages. "A small-scale export is performed only on an individual basis, through personal know-how."

Institutionalizing institutionalism. Following the rudimentary laws of the sociology of science, the scattered NI voices tend to form a community. The process has been rather chaotic, but it is an exemplary case of East–West intellectual encounter.

The first impulse proceeds from intellectual curiosity. The next steps almost necessarily presuppose international networking. Contacts with different entities abroad have been mentioned as important landmarks in the internalization of (some) NIE ideas. Among them are the Ronald Coase Institute, the Fraser Institute, the International Center for Economic Growth, the International Society for NIE, and the Association for Economic Sociology. These institutions do not have chapters in Bulgaria but are active in promoting events or attracting scholars. A few Bulgarian economists are individual members of some of those organizations.

Unforeseen connections have often played an important role. The story of what is probably the most manifestly New Institutional NGO in Bulgaria is instructive. Its orientation was formed largely through personal contacts. Acquaintance with an American political lobbyist in the early 1990s (when the respondent was an MP) shaped his interest in property rights. Meetings with Mancur Olson after 1993 and with the authors of the Fraser Institute's Index of Economic Freedom further developed the association with NIE. The NGO started to compile local indicators in order to include Bulgaria in the Freedom Index. In the process, the staff learned the basics of institutionalism and acted as mediators to outsiders in the understanding of the fuzzy local data. For several years, the NGO was involved in seeking out indicators that led, for instance, to contacts with the research unit of the World Bank. The next stage was the "operationalization" of the concepts in large-scale empirical projects. "The cohesion in the team was attained precisely by using NIE vocabulary including such notions as 'property rights,' 'quasi-fiscal subsidies,' and so on." The results were, to a degree, legitimized at the 1996 EBRD Annual Meeting, held in Sofia, where the NGO organized a special conference. Later on, institutionalist language and ideas penetrated the work of mainstream economists on more conventional topics. The growing influx was felt with the widespread use of the Internet. It happened

that one of the most active early exchanges of economic knowledge on the net was about micro-credits, informal credit, and property rights.

It is interesting to note that the “Fraser Index” was criticized by one of the respondents on the basis of its poor treatment of informality and (inversely) of its overrepresentation of regulations. The proposal to enrich the Index with indicators from the underground economy (based on the perceived *negative correlation between economic freedom and informality*) was not rejected by the Institute, but was considered to be too difficult to be quantified.

It should be recognized that the outside impact on the local neo-institutionalist scene is conditional on the status of this school in the leading scientific centers. It was observed that “NIE is still perceived in the United States as a marginal theory with a critical stance toward the American scientific establishment. USD ten to twelve billion (one university) are needed to shake the establishment and to force it to react. In Europe, the academic world is more feudal and, in principle, anything is possible.” What is needed for “mainstreaming” NIE “is to build career paths and to put institutional economists on the same footing with, say, monetary or labor economists.” In other words: to integrate the establishment.

The strong foreign push to transfer NIE did not succeed in institutionalizing it in Bulgaria. Although there are some dissenting voices, the prevailing view is that the Bulgarian institutionalist community has not yet reached maturity. It is true that “NIE ideas incidentally infiltrate the discourse. Lately they permeate the jargon of IFI’s reports” that are reproduced in local public speech. But “they are not easily recognizable.” Scholars working in neighboring fields (namely anthropology and sociology) provide important empirical evidence and formulate insightful hypotheses for this school without identifying themselves with NIE. In other cases (studies on social capital, for example), NI is mentioned but remains on the margins of interest. “It is more influential in sociology and political sciences than in economics.”

As mentioned, NIE is not visible enough in economic research. North has been translated due to his eminence as a Nobel Prize winner, not in an effort to promote NIE. The other leading figures have never been published in Bulgarian. One of the university courses is reported to be rated by the students as quite relevant for the Bulgarian

reality, but others either follow a Russian text (“with a complete confusion of concepts and authors”) or an American textbook devoted mainly to transaction costs. “Textbooks have to be brilliant and even aggressive” in order to promote NIE.

According to those with a more positive outlook (emphasizing examples that still tend to confound institutionalism with politics), an institutionalist milieu is already emerging. “Reading of recent economic history is appreciably deeper. The scholarly and the media discourse are aware of the importance of politics for the economy. In the ongoing discussions on systemic reforms (pensions, health) the community is maturing.”

A recurring example in the interviews was the “Friedrich von Hayek Society.” The description of its activities, however, seems to corroborate a quite syncretistic character of the community. In fact, the Society gathers scholars interested in other authors and/or in other economic schools. It is essentially a place of encounters and of discussions among sociologists, political scientists, psychologists, mainstream economists, and (among others) institutional economists. The only cohesive force is probably their vague libertarian attitude to society.

The Reverse Impact: Institutions and Knowledge

Setting. As an intellectual stance, NIE is (unevenly) shaping the understanding of the transition economy. In their tangible reality, institutions shape the production of economic knowledge. One of the fields of research of the DIOSCURI Project was devoted to the centers of applied economic analysis, and the obtained results provide clear evidence about this essential feedback. The Bulgarian case study concerned the Agency for Economic Analyses and Forecasts (AEAF): a government think-tank initially designed to make explicit the macroeconomic constraints that define the “boundaries of the possible” in the field of economic decision-making.⁴ The existing administrative

⁴The Agency was established in May 1991, under the name of Agency for Economic Coordination and Development (AECD), as an organization reporting directly to the government. The proto-idea was shaped late 1990, when it became obvious that successful macroeconomic stabilization required a consistent set of policies. A detailed account of this case study is presented in: R. Avramov (2007).

context was strongly fragmented and, consequently, a “general equilibrium” point of view had to be formulated in order to assess the side effects of every major decision. This was the only meaning of the “coordination” concept embedded in the brand name. The establishment of the AECD was inspired by some well-known historical models, among them Kondratieff’s Institute in Moscow, the NBER, and the Econometric Society. More interventionist French, Dutch, and Japanese precedents were deliberately disregarded. The founders of the Agency were motivated by the aspiration to make use of the limited mainstream economic knowledge available at the final stage of the communist regime for tackling the most pressing economic issues.

In time, the Agency changed its profile and gradually lost its initial institutional independence. In 1997, the AECD (becoming AEAf) was placed under the umbrella of the Ministry of Finance (MF). It got closely involved in the budget procedures by preparing the underlying annual macroeconomic framework and by offering other types of analytical expertise. With Bulgaria’s accession to the EU, the AEAf was assigned a coordinating role in the negotiation of some contractual chapters and in the preparation of the National Development Plan (NDP). Planning that had been avoided in the past was now performed in a Brussels-like style. Overall, the Agency’s unusually outspoken language and freshness was tarnished at the expense of a more tame and technical profile. It crystallized as a well-established piece of the administrative machinery that mostly performs routine tasks and tries to apply state-of-the-art conventional forecasting instruments. Due to its intrinsic functions, however, the AEAf remained a field of East–West intellectual encounters in the domain of economics. Influences there have always been mutual, even more so in the early 1990s, when IFI staff lacked local insight. The Agency’s point of view has been taken into account or incorporated into “outside” official documents. Perhaps the most far-reaching case was the anticipation of the Currency Board arrangement: following a discussion with the IMF mission, the option was publicly articulated in the 1994 Annual Report of the AECD, two years ahead of its effective implementation in Bulgaria.

Economic Vision. In order to evaluate the institutional imprint on conceptual perspectives, five interviews were organized with former and current personnel of the AEAf. Experts employed by the Agency are typically macroeconomists, financial economists, and mathematicians.

It is not surprising that, broadly speaking, mainstream neoclassical economics is the “common theoretical denominator” and that, according to one of the respondents, “there is almost no colleague doubting that the market could solve any problem and not opposing state intervention.” This generalized view, however, seems compatible with a more pragmatic approach to reality where intervention is taken as a fact of life (although undesirable in most cases), and European-style planning activities assigned to the Agency do not disturb excessively.

The freedom of conceptual choice claims to have been respected (except during the 1994–1996 socialist government) and no particular theoretical paradigm has been imposed. But the lack of dramatic internal tensions on intellectual issues does not prevent frictions with the supervising authorities. The typical examples reported concern negligence of the Agency’s appraisals on the macro-economic impact of policy measures. The recorded pressures are neither strong nor public. “They don’t concern the theory (the approach) but rather the results. There’s a bias to take those facts that are politically favorable and to ignore the others.”

The AEAF’s economic philosophy was strongly affected by the change of its institutional position. The Agency has historically evolved into an interface between the Ministry of Finance (to a certain extent also the Bulgarian National Bank), the IFI, and some EU entities. This association confers a more “fiscalist” shape to the institution, though the initial idea was to coordinate macroeconomic policies. “The Ministry of Finance coordinates the financial flows, not the reforms and their macroeconomic effects.” Thus, the problem boils down to the disarticulation of policies. “There are no mechanisms for the coordination of sectoral policies with macroeconomic policy.” Schemes for budgeting, cost-benefit analysis, or result assessments of the sectoral reforms are missing in many ministries. “Theory (that is, the Agency’s point of view) is either misunderstood or circumvented due to vested institutional interests. As another interviewee put it, “the general understanding is that the key structural policy decisions are taken on the political level by foregoing expert advice.”

The influence of the foreign institutional milieu on the Agency’s economic vision is taken for granted. Given the age and the strong educational background of its employees, it is inappropriate to talk about “surprises” or “shocks” in the intellectual contact with the West.

Only styles differ. The planning exercises assigned to the Agency are typical examples of how the EU-activated process orients an institution's conceptual vision. According to one of the former directors, "the reading of the EC handbook on the PEP was a revelation on how to conciliate the short-term with the long-term model, how to analyze policy effects and structural reforms." Although the contacts with IFI have similar "didactic" effects, they exert influence in a less constraining and bureaucratic way than Brussels.

Economic Theory. The consensus on mainstream neoclassical economics in the Agency conceals a more complex attitude towards economic theory. The AEAF is considered a "government's organization that is closest to an academic-type activity." At the same time, the difficulty in sharing research with applied economics is acknowledged: "current applied tasks devour science."

Theoretical labels are avoided and the Agency's activities could not be associated with one single school of thought. The focus in the AEAF is said to be on the skeleton of the economy and on policy-response functions. "There is no affinity for theory," says one of the respondents, and even if this statement should not be taken as a blanket evaluation, the reality remains that "theoretical" aims are not ambitious and that no original contributions are claimed.⁵ The prevailing attitude is "to stay in the mainstream and to try to test the validity of its assumptions." Most of them are confirmed, while others remain elusive. One of the interviewees is definitely convinced that "model [conceptual] thinking is unilaterally transferred from outside in. According to him, there is hardly any evidence produced by the AEAF that could motivate a reinterpretation of fundamental knowledge about the economy." The accumulated insight in the Bulgarian economy is potentially considered the major contribution by the Agency. An area where its input seems unquestionable is the "recording" of the Bulgarian economic transition through different periodic outlooks and occasional studies. Those results are regarded as valuable, although some think that they generate a "historical" bias, and that they constitute a departure from the initial (coordinating) goals of the institution.

⁵ Concerning the minimalist theoretical program in the Eastern European countries, cf.: P. Kabakchieva and R. Avramov (2004).

In line with the prevailing theoretical stance, the instruments of applied research are judged as mostly traditional. The introduction of novelties has been rare. The main efforts were to refine general equilibrium techniques, to assess the output gap, or to build long-term models that are consistent with short-term forecasting. Lack of long-term thinking among decision-makers is seen as a major problem, leading to policy inconsistencies and to frequent changes in everyday economic management. "Economic policy is in conflict with 'positive economics.'"

Cooperation with foreign experts in model building is a characteristic case of East–West intellectual transfer. On paper, the rough division of labor has been to assign data collection to local staff, while outside experts supply the instruments and the know-how about running the model. The general feeling is that this scheme is not operational, that foreign economists are not in a position to understand idiosyncratic details and peculiarities, or the real weight (meaning) of the data. The typical predisposition of the outsiders is to minimize their efforts, to propose ready-made models, "to come, to write down the equations... and to quit... leaving us with the equations but without estimated parameters." The final result is much more productive when they meet active counterparts and the local staff's contribution is critical and skeptical.

A proper conclusion of the AEAF case is the assertion of one of the respondents that "many more ideas from the West have been absorbed through the business activities, not through the administration. The administration resists and only imitates, while permeability in the business encounters are two-way." Institutions are rigid intellectual mediators. They inherently tend to impose their own agendas and to privilege vested interests over creativity.

Concluding Remarks

The story about the reception of NIE in Bulgaria illustrates how a paradigm can easily be transferred in a "reduced-form" version (in this instance deprived of its mathematical and econometric dimensions), accommodated to the peculiarities, traditions, and maturity of the local scholarly milieu, and—sometimes—wrongly interpreted. That kind of bias occurs more frequently when the research community considers

itself as only a “recipient” of theories and does not develop any propensity or self-confidence to produce original conceptual contributions.⁶

The NIE and AEAF case studies only reconfirm that progress of economic knowledge is not possible in a closed space; in a milieu lacking the minimum “density” or permanent critical introspection. The assumption that in the globalized world barriers are dismantled and we are approaching an idyllic universal brotherhood of thinkers is too simplistic. The reality is different: even in the apparently flawless Internet-supported exchange, ideas move in predominantly one way, while peripheries and asymmetries subsist. Individual breakthroughs are possible, but those are only personal success stories. The “emancipation” of a whole research community still faces institutional and financial obstacles, communication problems, a deeply-rooted mentality as well as parochial fences.

Finally, the transfer of ideas always bears the seal of the institutions. They imprint their values; configure the demand and the handling of the results; and distort the space of the transfer. The motion of knowledge is not a mere paper-supported (or virtual) undertaking. It is a hardly quantifiable blend of individual positions, responsibilities, leadership, and institutional mechanics that are essential complements to the requisites of intellectual might.

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⁶ An analogy could be made with the economic dichotomy between “price takers” (not influencing price levels) and “price setters.”

Soft Institutionalism

The Reception of New Institutional Economics in Croatia

Vojmir Franičević

Introduction: Setting the Stage

This essay is about the reception of New Institutional Economics (NIE) in Croatia. In the NIE's world of transaction costs, bounded rationality, and asymmetric information, institutions matter (Furubotn and Richter 1991). While NIE was originally focused on transaction costs and property rights analyses, for the purpose of this chapter, a broader definition is more appropriate, encompassing economic theories of non-market social relationships, economic analysis of politics, law and economics, and new economic history. However, the "institutions matter" axiom is shared by very different epistemological approaches, including those critical of neoclassical theory like old institutional economics (OIE) and its modern followers. Due to the blurring divisions between NIE and OIE (evident in recent works of North, and Franičević 2003a), but also due to an eclectic use of institutionalist methodology and rhetoric in applied work, I will not insist on methodological purity when approaching NIE's reception in Croatia.

Profound changes in the economic and political system in the 1990s have been complemented by fundamental changes in discourses. If post-socialist reformist discourse can be taken as encompassing "both a set of policy ideas and an interactive process of policy construction and communication" (Schmidt 2002, 210), then not only new theoretical discourses (different from the ones provided by the political economy of socialism) were needed, but also a different "rhetoric" of systemic reform and policy change. Namely, besides its cognitive and normative functions, "discourse performs a coordinative function by providing a common language and framework for the construction of a policy program and communicative function through the public presentation and deliberation of the policy program" (Schmidt 2002, 210). However, a *community of discourse* does not necessarily imply the same level of complexity in reasoning or sophistication in arguing; more importantly, it does not imply that actors, while sharing a discourse,

act as consciously belonging to *epistemic communities* (thus sharing normative and principled beliefs, causal beliefs, notions of validity and policy prescriptions (Haas 1992, 3)). For some, what are “principles” and “tools” are for others just “facts” or ready-made “heuristics” or “ideologies” in the Northian sense (Denzau and North 1994). This is why, even if the reception of some theory does not lead to works of high quality, interpretations on the receiving side may matter greatly if they lead toward shared understanding of the theory’s importance for the choice of research issues, their framing, and the emergence of a shared policy focus—for example, that institutions are vital for successful reforms and Europeanization. The reception of the *institutions matter* proposition thus provided actors with the ideology of efficient/good institutions as (self-evident) heuristics, thus contributing not only to the rationalization of reforms but also to their legitimization.

NIE’s Reception in Croatia

Undoubtedly, a great majority of Croatian economists accept the “institutions matter” thesis (not necessarily related to NIE). Even those unfit to go through all the complexities of NIE’s methodologies often put their trust in the soundness of its hypotheses and conclusions. For many, even less was needed: it was enough to read EBRD *Transition Reports* or reports by the World Bank without bothering with their theoretical foundations. For those critical of “shock therapy,” an important avenue to the “institutions matter” proposition was Stiglitz’s opposition to the “Washington Consensus” (E. Stiglitz 1998). Arguments in favor of gradualist and contextualized evolution made a strong impact on those who were opposed to the “neo-liberal” policies of the 1990s (for example, Baletić and Zdunić 1999; Veselica et al. 2001). Radošević argues for “post-Washington” consensus strategies (2004), and Horvat criticizes the “restoration of (predatory) capitalism” and endorses George Soros’s critique of “market fundamentalism” (Horvat 2002, 48–53). Typically, such a concern with “institutions” is much more related to the reformists’ institution building, than to spontaneous institutional evolution based on self-interest and is far-removed from a typical NIE research program.

When browsing through the national and university library catalogue in Zagreb, one finds but a few articles and books dealing directly with NIE. The majority of relevant publications are associated with

the works of political scientists—the journal *Politička misao* traditionally being their main venue, particularly when it comes to works of Buchanan, Olson, Tullock, the Ostroms, and others.¹ Particularly active have been Petak (1991, 1999, and 2001) and Kursar (1997, 2001, and 2002). Political scientists are not just interested in public choice and collective action issues but also in voting theory (Ciraki 1996; Petak 2001).

There is very little work that fundamentally relies on NIE methodology. Besides those interested in the political economy of transition, public finance experts have been the most receptive among the economists. *Soft institutionalism* greatly prevails: recourse to NIE is usually made when its concepts/propositions fit the “story” well and add to one’s argument’s credibility. Typically, in works on the transition, concepts of “path dependency,” “governance,” “rules of the game,” and “institutional incentives” are invoked as self-explanatory. Rare are contributions to neo-institutionalist methodology and theory building. Indeed, it is almost impossible to find a paper where NIE’s methodology is applied with full rigor; for example, papers based on game-theory approaches are absent. One promising exception, unfortunately without a major follow-up, was a project “Socioeconomic Reality and Rational Choice” run by M. Meštrović at the Economic Institute in Zagreb. Šonje (1995) and Šonje and Štulhofer (1995) built their arguments consistently on individuals’ rational choice. While Šonje’s interests moved to other areas, Štulhofer, a sociologist, did important work on social capital and opportunism in Croatia (Štulhofer 1997 and 2000; Štulhofer and Rimac 2002). There were some reviews (Šonje 1991 on NIE in general; Pečarić 2002 on property rights; Franičević 2003a on North; Brunsco 1992 and 1994 on public choice).

When active reception is considered, applied research greatly dominates. Four areas, in which the importance of institutions is explicitly addressed, could be mentioned as examples:

1. *Political economy of the Croatian transformation*: On transition and the state (Reić 1997; Franičević 2002; Bićanić and Franičević 2003; Franičević and Bićanić 2007), on public governance

¹ McLean’s (1987) *Public Choice: An Introduction*, was published in Croatian in 1997; E. Ostrom’s (1990) *Governing the Commons* in 2006; Laver’s (1997) *Private Desires, Political Actions* in 2005; Mueller’s (2003) *Public Choice III* in 2008.

- and corruption (Bađun 2005a, b; Budak 2005; Budak and Goel 2005; Aralica and Budak 2005); on privatization (Franičević 1999; Čučković 2001; Račić and Cvijanović 2005); on informal institutions (Vehovec 2001).
2. *Entrepreneurship* (Vehovec 2002 and Franičević 2003b on the institutional approach).
 3. *Public finance and policy* (particularly as relating to the Institute of Public Finance and its publications, the journal *Financial Theory and Practice*,² for example, special issues on the unofficial economy in 1997 and 2002).
 4. *EU accession* (four edited volumes encompassing very different aspects of the process and involving a number of contributors, for example, Ott 2003, 2004, 2005, and 2006).

While many share concern for “institutional” matters, rare are those who would consistently and self-consciously develop their argument as a “neo-institutionalist” one. Institutional argument is rather used as part of “soft” analytical narratives, accepting institutions as important explanatory concepts or even goals or just as “givens” (in one’s econometric work).

Finally, *low-level reception* dominates. Besides the incentives and barriers (to be discussed later), such a reception is also due to a lack of major research interest, on the part of the West, regarding Croatia. While “the Balkans” and/or South–Eastern Europe still have something to offer in terms of research and specialization, Croatia’s economic transition could provide too little in terms of specific features comparable to the institutions of workers’ self-management in the past. In marked contrast, the former Yugoslavia had offered a major institutional innovation: self-management, attractive enough to produce major international interest. This resulted in an international association and journal (*Economic Analysis and Workers Management*) as platforms for economists’ “encounters” based on high professional

² *Financial Theory and Practice* has a recognizable editorial agenda. Its thematic, discursive and normative preferences as well as its typical “hands-off” position concerning state interventionism clearly show affinity with NIE-based policymaking. It may be far-fetched to argue that the journal has become a locus of a clearly defined “epistemic community.” Nevertheless, it has developed enough space and incentives for such a community to emerge.

standards. For many economists in the West (including famous ones; some among the founders of modern NIE as well), it became a subject of interest and even of long-term specialization for a few scholars. There was demand for related research and teaching at universities (cf., Ward 1958; Bergson 1967; Meade 1972; Vanek 1970; Furubotn 1971; Furubotn and Pejovich 1970; Jensen and Meckling 1979; Tyson D'Andrea 1980; Svejnar 1982; and Estrin 1983). Articles on the theory of self-managed firm were published in major journals; books were printed by renowned publishers. This gave a strong impetus to Yugoslav (Croatian) economists' *high-level encounters* with Western economists and their theories (cf. the debates on the Illyrian firm, initiated by in Ward 1958, and on the Furubotn-Pejovich hypothesis in 1970), something which was unavailable to Croatian economists in the 1990s. Particularly active in this was Branko Horvat, the most recognized Yugoslav/Croatian economist in the world (for example, Horvat 1982, 1986).³

The NIE's property rights approach to the self-managed firm (Furubotn 1971, 1976; Furubotn and Pejovich 1970) became not only very influential but was also at the center of ensuing debates, in which many economists took part (for reviews see Estrin 1983; Horvat 1982; Milenkovich 1971; Tyson 1980; Uvalić 1992). The participation of Croatian economists in these debates was quite modest, two important exceptions being Horvat and Dubravčić (1970). One explanation may be that some influential Croatian economists who were taking part in big debates between the "income" and the "profit" schools (during the 1960s) were much closer to the first one which was radically opposed to NIE (for example, J. Sirotković and S. Dabčević-Kučar).⁴ Additionally, during the very ideological decade of the 1970s, and particularly after the breakdown of the "mass movement" of 1971, many kept away from ideologically burdened discussions such as those on social ownership in Croatia.

³ He had a great impact not only through research and publishing but also through his teaching and organizational efforts.

⁴ Interestingly, while political economists associated with the Croatian Spring (1971) were radical in their political demands, many remained committed to Marxism and its application to market socialism.

1990s: Turning Mainstream?

With a growing liberal mood in the 1980s, relations between politics and economy, markets and democracy, became prominent in the discussions in former Yugoslavia. It is through these discussions (for example, on the pages of *Ekonomska politika* from Belgrade and *Naše teme* and *Kulturni radnik* from Zagreb) that constitutional political economy, property rights, public choice arguments, and the Hayekian criticism of socialism became influential and integral to the discourses of “transition” shared by many economists. In the process, full marketization, property rights reform, and freedom of entrepreneurship became the economists’ agenda—allowing, however, for differences and controversies around numerous issues. It is in such a context that the federal government led by Ante Marković (a technocrat from Croatia) introduced a program of far-reaching economic reforms in 1989.

While transition on the federal level failed dramatically, it significantly influenced change in the individual republics and the transition’s particular rhetoric. In the context of major systemic changes, economists’ discourses were changing, too. *First*, the “new reality” was asking for different tools: rapid learning and imitation of Western economic practices was made easier by a strong presence of international consultancy and conditionality. *Second*, the adoption of reformist discourses was calling for a common language, rhetoric, and signaling. *Third*, concerning the economic profession itself, a *new legitimacy basis*, against the delegitimized socialist political economy, was required. Thus, early transition discourses were dominated by mainstream economics, including NIE. In societies experiencing thorough institutional change, a theory dealing with the emergence and efficiency of institutions became influential “by default.”⁵

In former Yugoslavia, the use of the tools of Western mainstream economics was quite widespread in economic research and teaching (but also in business and policy making see Gligorov [1998]). Nevertheless, cut off from its “natural” link to liberalism and individualism, non-Marxist theory was far less influential in organizing discourse on

⁵ As North amusingly remarked on his going around the world as if “playing God” (“Understanding Economic Change and Economic Growth,” Leon Kozminski Academy of Entrepreneurship and Management and TIGER Distinguished Lectures Series No. 7, Warsaw, May 16, 2002).

the economic system. Economic ideology was firmly controlled by the political economy of socialism. However, by the early 1990s, mainstream economic theories became dominant in economic curricula and research, pushing aside old (socialist) orthodoxy, while leaving little space for any heterodoxy. This silent revolution was not accompanied by any significant theoretical or methodological debate. Looking for new legitimacy, political economists of the old curriculum established themselves (some with hesitation) in the realm of standard Principles of Economics. This provided them with legitimacy under newly emerging regimes of ideology and scientific respectability. The most symbolic event in this respect was a translation of Samuelson-Nordhaus' *Economics* (13th edition) in 1993—to be followed by translations or compilations of microeconomics, macroeconomics, international trade—thus, consolidating a body of mainstream economic theory to be taught and pushing the university professors to achieve common teaching standards in these subjects.

Yet, there was an almost complete lack of discussion on epistemological issues involved in this dramatic change. Characteristically, even the best economists of the younger generations, commanding high technical skills, shy away from debates on methodological and wider epistemological issues. With few exceptions, they prefer to see themselves as “experts” (in applied economics) not belonging to any “school of theory” but rather to something as elusive as is a notion of “modern economics.” Typical is the “Declaration on Goals” of the *Ekonomija Moderna* association (formed in 2000, and now defunct), which proclaimed itself to be “a network of people who deal with the economy, who in their work apply modern economic knowledge and technique, while protecting and promoting free market competition, stability, and sustainable economic growth.”

Two major exceptions to the lack of the profession's concern with epistemological issues deserve attention: (1) the mid-1990s research project *Socioeconomic Reality and Rational Choice* and; (2) a small debate on methodology provoked by Katunarić's attempt at classifying Croatian economists. The project addressed methodological issues in economic theory, as well as the relationship between economics and sociology. In *Revija za sociologiju* (3–4, 1995), contributions to the project were published, followed by an edited volume including contributions to a roundtable on the project (Meštrović and Štulhofer 1998). Šonje (1995) is firmly on the side of methodological individualism

and (rational) choice, where institutions, very much in line with NIE thinking, are the actor's exogenous constraints. Šonje and Štulhofer (1995) explicitly define their position as one of "methodological individualism" and try to show that "institutions limit and help rational choice." While recognizing the possibility of inefficient institutions, they consider "functionality" of institutions to be critical for institutional evolution and selection (Šonje and Štulhofer 1995, 95–6) and see "the present condition and evolution of socio-cultural capital as unintended consequences of individual actions resulting in an increase in efficiency in given time and space framework of society" (102). Thus, they provide an agenda for empirical research (to be actively pursued by Štulhofer [2000]). More critical of the NIE's position was Franičević (1995), who took institutions as endogenous to the actor's situation and decision-making, thereby opening doors for a broader role of culture as integral to the actor's adaptive rationality. On the other side were those contributors to the project (sociologists, philosophers) who argued for "situational rationality," where the individuals' logical-calculative rationality is institutionally mediated (Karajić 1995), or made a sharp break with methodological individualism, thus taking a "cultural determinist" position (Paić 1995 and Dragojević 1995).

Katunarić, in 2004, published a controversial paper on Croatian economists, where the difficulties of a dialogue between economists and sociologists became clearly visible. Katunarić identified three groups: (1) economic reductionists/neo liberals; (2) neo-institutionalists; and (3) relativists—based on their preferences of choice between markets and the state as well as on their respect for socio-cultural prerequisites of the transition, without really discussing inherent methodologies. Considering "neo-institutionalists" as those who "appreciate the role of the state as a major institution which corrects market failures" (2004a, 153), led him to conclude that economists who are not sympathetic to neoclassical methodology belong to this group. At the same time, Šonje, who consistently followed NIE's methodology in dealing with "institutions," has become in the typology an "economic reductionist/neo-liberal" not because of his preferences for methodological individualism but rather due to his advocacy of free markets. Finally, the strong stress on path dependency in the Croatian transformation made Bićanić a "relativist" together with Branko Horvat, a true "reformist" and dedicated social engineer. All this confusion had its roots in the fact that Katunarić did not make a distinction between

“old” and “new” institutionalism, as well as between economists’ methodologies and normative preferences. In their response, Šonje and Čučković see their own work as concerned with “institutions” and conclude that “neo-liberal neo-institutionalism” is something quite possible (Šonje and Čučković 2004, 1185).

In his response, Katunarić (2004b) concludes with a new and confusing statement: namely, if classification was made in accordance with one’s recognition of the importance of socio-cultural (and inherent social) values for economic development, then “reductionists” are those who do not recognize their importance and want them to be adapted to free markets. In his view, the second group (neo-institutionalists) is looking for “equilibrium,” while “relativists” take traditional society and its institutions as a decisive factor (Katunarić 2004b, 1199). Clearly, normative criteria (what is preferred) are confused here with positive ones (about causal links of determination), as if economic reductionism were more about one’s preferences (for free markets) than about adopted methodologies (of rational economic choice and methodological individualism). Yet, the silence of economists was indicative—they missed an opportunity for debate on methodologies and normative preferences.

Thus, are we all neoclassical or might one talk about (post-modern) *eclecticism* when many are “shopping” for theories/models with the best explanatory potential for the argument’s development? In our interviews and discussions, the most difficult question for my colleagues was: How would you describe yourself in terms of your methodology? The answers varied. A young economist, among the brightest in his generation, after a couple of exchanges, described his relationship to NIE (to which he contributed a couple of papers) as a “survivalist.” Another one, a leading figure in the “fifties” generation said that he originally wanted to be neo-Keynesian; however, while the motivation survived, the paradigm was lost. He is now eclectic “by default.”

Incentives and Barriers

During the past two decades, there has been *a marked shift in demand* in favor of business economics and “know how” instead of “know why.” In addition, Croatian economists have been facing some important barriers in establishing “high-level” encounters with Western economic theory, particularly in the 1990s. It may also be argued that the (formal

and informal) “rules of the game” in the profession have not been conducive and supportive of such encounters.

A triumph of “how to”

The major trend, brought with the 1990s, has been a further transformation of faculties of economics into business faculties, leaving limited space for teaching economic theory. Theoretical contents (where the *why* prevails) have been substituted with engineering of the *how*. A small fraction of students take courses rich in theory besides standard microeconomics and macroeconomics. The demand is great for business studies, which influences the employment and specialization of university teachers. There are only two institutes (the Economic Institute Zagreb and the Institute of Public Finance) that offer space for young researchers interested in pursuing a NIE (or some complementary) research program. Yet, they are under great pressure to work on projects with commercial value that call for more pragmatic and applied work.

The Bologna process reinforced this long-term trend toward the de-intellectualization of economic teaching, where passive reception (*via* major textbooks) of modern trends prevails. Of course, many NIE topics and contributions find their way into teaching through courses in the principles of economics (microeconomic and macroeconomics, public finance, and so on) but they are not discussed systematically. Very rare are courses in unorthodox economics and more specialized theoretical courses (for example, methodology, public choice, NIE game theory, political economy, economic history, history of economic thought, and so on). Thus, the brightest students who are interested in theory are increasingly looking to foreign universities to continue their studies.

Dissertations: Business is the order of the day

Dissertations may be taken as an avenue for “high-level” entry of new knowledge to the epistemic community for two simple reasons: They are premised on originality and on proving competence in the field. They typically engage students in examining theoretical and methodological developments there. This is, for many, the broadest and the deepest “encounter” with relevant theories. Yet, when looking into the

titles of some 2,500 dissertations from 1985 to 2005 (through the national and university library online catalogue), one can easily notice the dominance of business, marketing, organization, and related fields; economics is dominated by applied work. Very rare are dissertations in economic theory and methodology. Some major recent exceptions are Pečarić (2002), who deals with property rights theory; Petak (1999, published in 2001), a political scientist working on public goods in public choice theory; and Kursar, a political scientist with his thesis on Buchanan (2001). Also rare are dissertations in which institutions are central to the research—for example, Bađun's 2005 master's thesis on good governance and Budak's 2005 doctoral thesis on corruption. There are dissertations that apply concepts from public choice/NIE literature in the field of public finance (for example, Bajo 2006; Bratić 2007; Švaljek 2000; Ilić 2002) or collective action (Vidačak 2005); and a dissertation on diversity of socioeconomic systems by Matutinović (1999), who went on to successfully develop his work along the evolutionary/institutionalist agenda (2005 and 2006).

Remaining local pay-off

Economics in Croatia has evolved through a combination of barriers and incentives that have not been conducive to high-level theoretical work and participation in the profession's highest loci of encounters, that is, internationally recognizable and accessible points.

One of the major venues of East–West encounters and cooperation in the post-socialist period has been international research projects: From the early 1990s there has been a lot of interest in the West regarding the transition from communism and numerous well-financed international projects were initiated. Economic education became international in Eastern Europe, too (Budapest, Prague, and Warsaw). Both have brought numerous learning externalities and the pressure to be “competitive” and capable. Both “push” and “pull” factors have been strong. However, this was not the case in Croatia. Due to the war and imposed political conditions, these important venues (the Tempus and ACE projects, for example) were closed to a large extent. This has contributed to “isolationism” in Croatian economic science. And when the barriers were eventually removed (by the 2000s), interest in Western academia in transition was much weaker than it had been in the

1990s, when funds were still available for such research.⁶ The atmosphere in both society and Croatian politics (cf. nationalism and self-sufficiency) was not very conducive to international cooperation in search of excellence in research and education. Branko Horvat's attempt to organize an international doctoral program in economics in the early 1990s, due to his opposition to Tudjman's politics, was rejected by his home institution (see Horvat 2002). This was a missed opportunity to develop a true center for excellence.

Concerning *incentives*, the number and impact of first-rate publications have not become a legitimacy device in the profession. In addition, ethical standards have not been firmly established or enforced—leading to a low premium on originality and honesty but stimulating the taking of “short-cuts.” The prevailing rules of the game have produced too few incentives to publish and cooperate internationally. In spite of the fact that the rules for academic (re)election were redesigned with an intention to internationalize scientific reviews of one's work and contributions, in the social sciences they remained soft even after recent “reforms.” This has produced perverse incentives: there was no premium for scientists to publish in truly international and recognized journals. Even the most competitive young researchers have found it easier to publish locally (in local “substitutes” to international journals) and submit their papers to locally organized international conferences that offer easier access.⁷

The record of Croatian economists *publishing internationally* is dismally low (though there are some hopeful recent signs of change). Preliminary findings by M. Lang (2005) offered a depressing picture: Since 1990, Croatia-based economists published very few articles indexed in SSCI, CC, and/or EconLit journals (excluding those from Croatia). Among those who did, most had between one and three pub-

⁶ However, some collaborative work focused on institutional incentives and deficits did occur. Some examples are: (1) the Institute of Public Finance project on unofficial economy with Feige (Feige and Ott 1999); (2) Budak's work with Goel on corruption (Budak and Goel 2004); (3) Čučković's work with Bartlett on enterprise policies in Croatia (Čučković and Bartlett 2005), as well as Franičević's work with Bartlett on SME policies (Franičević and Bartlett 2002; Bartlett and Franičević, 2001), etc.

⁷ Even the most reputable international conference on Enterprise in Transition (organized biannually) by the Faculty of Economics in Split is falling behind the reviewing standards of journals indexed in SSCI and such.

lications (in all databases combined). Exceptions do exist, though these authors are mostly based at foreign universities. Even economists with a high public profile have very few or no publications of the above variety. Remaining local does not hurt an economist's public image and is not considered as a barrier to becoming a member of the Croatian Academy of Sciences and Arts, a rector of a university, or sitting on the national body in charge of academic promotion. And, importantly, it is not a *barrier to professional promotion* for those pursuing careers at universities and research institutes.

At the same time, the above-mentioned conferences have certainly produced a lot of encounters with Western economists and some cooperation and have contributed to breaking with the isolationism and localism of economic science. For home participants, there has been a learning effect too—leading to the standardization of their “styles” and “discourses” as well as to their socialization in normal modes of international exchange (many have proved to be quick and adept learners). Yet, applied work, particularly in business economics, has prevailed, with little exchange in issues of theory and methodology. Economists from the West who were attending the conferences were mostly interested in applied work on various aspects of firm and/or consumer practices/behavior in the context of transition, not producing strong incentives for either purely theoretical or even high-level applied cooperation. While some reputable economists took part in them (and some quite regularly), these conferences have not established themselves as focal points for high-level encounters, with one exception: the Dubrovnik conference on Transition Economies, organized annually by the Croatian National Bank since 1995. By focusing on macroeconomic and/or monetary issues while at the same time being open to papers on wider institutional and political economy issues, it traditionally gathers some of the leading Western economists. It has certainly been a locus of high-level encounters, with major learning results appropriated by Croatian participants. However, because it is not open to the wider academic community, its impact has been limited primarily to economists close to the Croatian National Bank. The recent introduction of the “Young Economists Papers” section will certainly encourage and deepen its potential as a learning experience.

Neither “push” nor “pull” factors have been strong enough to generate a high-level reception of (and contribution to) modern economic theory (a contribution verifiable under accepted “rules of the game”

for originality and excellence). Even some brilliant and potentially competitive younger economists hesitate to submit their papers to high-ranking journals. They, almost without exception, prefer publishing at “safe” places. For some, exit from an academic career has been the rational choice: when faced with unique opportunities to be employed at high-prestige jobs—offered by the Croatian National Bank, the government, international organizations, foreign banks, and consultancies—it was indeed hard for them to resist.

Conclusions

With the demise of socialism and its political economy, a new basis for legitimacy was called for in economics. Economic theories of neo-classical origin have firmly established themselves as the “mainstream,” leaving little space for any heterodoxy. However, there is a characteristic lack of Croatian economists’ interest in epistemological issues involved in this change. Even if institutions became typical components of post-socialist discourse, and many scholars include an institutional dimension in their work, these have not led to the emergence and consolidation of a NIE-based epistemic community.

The majority of Croatian economists tend to agree on the importance of institutions and an institutional approach by accepting the “institutions matter” proposition. However, and more importantly, by itself this is not necessarily related to NIE. What is more, “soft” institutionalism and passive reception prevail. By this, I mean that a recourse to NIE is usually made when NIE concepts/propositions fit the “story” well and add to one’s credibility, though one finds very seldom papers that might be considered as true contributions to NIE or critical/reflexive discussions of it. When active reception is considered, this is mostly the applied one. Rare are original contributions to neo-institutionalist theory building and the same applies to papers and debates on methodology. When it comes to applied work, particularly important are subjects of political economy of transformation, privatization and the state, unofficial economy, public governance and corruption, entrepreneurship and SMEs, and public finance and policy. But low-level reception dominates. This is due to the retreat of theoretical economics in Croatia and the marked shift in demand in favor of business economics and “know how” instead of “know why.”

Finally, all this has not been conducive to greater internationalization and competitiveness of Croatian economic science. May we talk about path-dependent development? To answer such a question, greater and more detailed research in the sociology and politics of the economic profession would be needed.

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Institutionalism, the Economic Institutions of Capitalism, and the Romanian Economics Epistemic Community

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Introduction

Any discussion of the topic of institutionalism in Romania is bound to take place under the shadow of a paradox: On the one hand, it looks like there is a huge propensity to adopt institutionalist views among Romanian economists. On the other, the diffusion of new and even old institutionalist theories has rarely moved (both in academia and the public arena) beyond perfunctory references and comments. Therefore, this paper begins by focusing on the representation of the institutions of capitalism in the economics epistemic community (broadly defined as the community of those specialized in the study and dissemination of economics), and uses it as a vehicle for an assessment of the limited spread of institutionalism in the post-communist period. We will outline (as a result of research that began with a content analysis, continued with a series of interviews with top economists and decision-makers as well as several young newcomers, and was completed by a study of the broader historical context) the most important aspects of this paradox.

Why should one be interested in the spread of institutionalist ideas? Why should one be interested in the spread of such ideas in a country like Romania? There are at least two main reasons. Crucial to the fast political and economic transition from communism in Eastern Europe in the 1990s was the transformation of the way economic institutions were conceptualized. The cognitive transition from one way of conceptualizing economic institutions to another shaped the attitudes, motivation, and the political behavior of the Eastern European administrative and political elites. To focus on ideas about the economic institutions of capitalism (and on the ways they are theorized) is to focus on a critical factor in both understanding and shaping the transition process.

Aside from the historical justification, there is also a deeper one that is both theoretical and epistemological. Institutions have an artifactual

character and their study requires an understanding of the ideas or principles that created them or kept them alive as social phenomena. Understanding the way the rules of the game, the “institutional facts,” constitute and shape the structure and the play of the game is a prerequisite of any social analysis. The reverse is also extremely important. Institution-building, institution creation, and change require a good measure of intelligibility. The notions people have about what an institution is or should be are decisive (Ostrom 1991). Never was the artifactual character of institutions more obvious than in the case of post-communist transition. Institutions were effectively reconstructed through the policy processes and spontaneous actions of the actors involved. Therefore, the problem of institutionalism and social change in Eastern Europe is more than mere historical interest.

Finally, it is important to note why Romania is an exciting case. In Romania, the spread of ideas about economic institutions could be easily timed and documented: The country was closed to “capitalist ideas” during the communist dictatorship (more than other countries in the region, with the exception of Albania). The result is a unique situation where one can precisely trace ideas, institutions, and processes related to the diffusion of ideas and institutions. Yet, as has already been alluded to, this methodological advantage is not enough. When the ideas to be traced are few and vague, all this advantage is lost. Implied in all of these, one may find (reading between the lines) one of the explanations of the weak institutional performance of post-communist Romania.

Institutions of Capitalism

Let us summarize how the basic institutions of the capitalist system have been reflected by the Romanian economists. To operationalize the approach, three institutions were selected: property rights, the market, and the firm. The first step was to survey written documents produced by the epistemic community during three periods: before 1989, the early 1990s, and 1995–2008. The pool of written documents was confined to those containing academic and specialized information.

The diffusion of Western modes of institutionalist thinking, limited as it was, did not have a surprising pattern. There was a significant break in 1990. Since then, the rate of adoption has been going up. Yet, there is a difference in terms of the clarity and consistency of the ideas

adopted—and the existence of a critical point around 1995 is obvious. Thus, the 1990–1995 period could be seen as a transition with all kinds of hybrid ideas floating in the air, with much confusion and ambiguity. The more a new generation asserted itself on the scene, the clearer the sense emerged of adopting the perception of being fully Western. That does not imply in any way the emergence of a definite conceptual clarity or an assumed intellectual identity in the sense that, for example, university departments were becoming neo-Keynesian, neo-institutionalist, and so on, yet, the difference between the starting point and the period after 1995 is significant. The textbooks used can be offered as a supporting example.

To make this point, we can look at the 1985 *Handbook of Political Economy*, published by a group of authors under the umbrella of the Ministry of Education. The 1985 handbook is addressed to:

students from universities and from the other institutions of superior learning, to the teachers from high schools, pupils, and students active in the scientific circles, to all those who want to achieve a deeper understanding of the actual problems of the economic policies of the Romanian Communist Party. This book was developed on the basis of the Program of the Romanian Communist Party, the documents of the Thirteenth Congress, the theses and the ideas of inestimable theoretical and practical value of comrade Nicolae Ceaușescu, General Secretary of our party. (Ministry of Education 1985, 1)

One of the most interesting observations regarding such a volume is that the issue of property rights was not avoided, as one would expect. On the contrary, special attention was given to the sensitive issue of “The Socialist Property and Its Forms.” It is important, it was argued, to put property rights in their context, which is “the system of the relationships of production” in the socialist society. The system of the socialist relationships of production constitutes an organic whole, including, besides the relationships between all particular elements, the relationships between each particular element and the whole of the system. Now, “the main factor determining the socio-economic content of the system of socialist economic relations is the socialist property of the means of production” (77). To sum up, not only was the issue of property taken seriously, but it was indeed based on an entire philosophy. The socialist notion of property was seen as the dialectic unity of the economic relationships of social ownership, the use, and the collective

disposition of material goods: “the essential premise and condition (as well as result) of the process of social production and reproduction.”

To further dispel the myth of a lack of focus on property rights, the textbook elaborates various types of these rights. For instance, socialist property differs from state property (79). At the same time, cooperative property exists in agriculture, trade, industry, and service (79). Finally, there was the issue of private property. As this was a sensitive subject—especially the future evolution of private property—the handbook limited its comments to a minimum. Thus, in the end, the central institution of capitalism got serious treatment, beyond the standard Marxist approach. Needless to say, old, new, or any form of institutionalist theory interpretations were out of question.

Things are not different in the case of the market. The chapter entitled “The Market and Its Forms in Socialism” discussed market arrangements in some detail. The handbook explained the presence of markets related to the circulation of goods:

The totality of economic relations taking place in the process of the circulation of goods, of selling-buying actions between the socialist enterprises, between these and the population, and between the economic units and the foreign partners are expressed by the economic category of the market. (271)

Market types are: the market of capital goods, the market of consumption goods, the market of services, the internal and external markets, and so on. The explanation of the way the market works is remarkably clear:

The markets connect production and consumption, under the form of relations between supply and demand. A certain ratio exists between demand and supply, reflecting the relationship between goods and money, between producers and consumers. (271)

It is noteworthy that, despite all the talk about the market, its twin—the capitalist firm—is neglected. Except for the state and cooperative units of production and distribution, there is hardly any discussion of firms in the pure economics texts. That is why, in order to illustrate ideas regarding the firm, one has to take into consideration the references to capitalist firms.

The official doctrine claimed that an inescapable effect of free markets is the concentration of capital and a natural tendency toward the

formation of monopolies (the word was sometimes used as interchangeable with “multinational corporation”). But no close attention was paid to the organizational and institutional structure and the operations of such organizations. Instead, it was noted that the international monopolies create new contradictions in the global economy:

International monopolies have a strong negative influence upon the interests of both the origin and destination countries, jeopardizing the sovereignty and independence of these countries. That is why the communist parties and progressive forces from the capitalist countries consider that in the current stage the fight of the large popular masses against the policies of international monopolies is a necessity. (362)

To sum up, out of the economic institutions of capitalism discussed, the capitalist firm seems to be the least studied and understood. Again, no discussion of new institutionalist theories could be traced in Romania during the pre-1989 period.

During the post-communist period, however, “new ideas” began to pour in. New thinking accompanied new institutions and vice versa. This does not mean the institutional transfer was made by people who fully understood what was happening. But one thing is clear: economics immediately had to mean capitalist, market economics. Typical examples are the *ABC of the Modern Market Economy* (1991), and a handbook, *Political Economy* (1992), a collective work by the Academy of Economic Studies coordinated by Niță Dobrotă.

The 585-page handbook extensively covers a variety of political economy topics. Not surprisingly, it includes a detailed treatment of the market. The first chapter is entitled: “The Market: Origins, Reality and Perspectives.” Quoting Braudel and Toffler, the authors introduce the growth of markets, in terms of not just space but also in terms of the increasing diversity of goods exchanged. A short exposition of world economic history brings the authors to the contemporary market, defined as “a distinct moment of economic life, a network of activities and functions existing between production and consumption” or as a “relationship between the supply and demand of economic goods (material and non-material)” (Dobrotă 1992, 9). A whole range of markets is then introduced. An important signal of change is demonstrated by the way in which the stock market, a previously neglected institution, was depicted. The handbook dedicates a long chapter to capital markets, distinguishing between primary and secondary markets.

“The institution called the stock exchange is a commercial society (usually based on shares) private, public, or mixed.” The importance of the stock exchange for all the other markets is emphasized (283).

A visible shift is made on the issue of property rights: “Individual property represents a fundamental characteristic of the market economy, irrespective of the particular organization or the use of the object of property. The inviolability of the property rights of every person and the defense of this right are principles of action for the democratic state in the conditions of market economy. The individual property rights are the fundamental premise of free initiative, of the manifestation of all other economic liberties” (15).

The change of vision on property rights is obvious, as is the change of bibliographical references: “There was none and there cannot exist any human society without property rules and, thus, without property rights; explicit or implicit, rules of organizing the relationships between people in regard to the use of goods and things. In this view, what makes the difference between societies is not the presence or absence of property rights, but the way in which these rights combine between them” (Georges Berthu, Henri Lepage in Dobrotă 1992, 62).

The most dramatic shift is the way in which the firm is discussed. The private enterprise—individual or collective—is the “basic economic unit of market economy,” representing “the place of combination and substitution of the factors of production, of their efficient use.” The entrepreneur (individual or collective) is: “The engine for economic rationality in the conditions of market economy. He promotes the interests of the producers, of a certain productive unit, in its relation with other producers, with the consumers, the banks, or public administration” (15).

The firm is explained in strictly legal terms, offering the “enterprise” a more thorough explanation. The enterprise is: “The economic unit characterized by its specific domain of activity, manifesting its functionality through the specific technological organization, through its capacity of producing certain goods, through unitary leadership and administration, and through its financial unity” (111).

References to “the nature of the firm”-style institutionalism along Ronald Coase’s lines emerge clearer and clearer:

The enterprise is a mini-system of coordination and cooperation answering to the hierarchical coordination principle. The market is, as well, a system of coordination and cooperation, but one based on a

contract. The firm is nothing but a replacement of the market, allowing the realization of what the market cannot do because it would suppose tremendously high functioning costs. The firm is nothing but a set of contracts, with a central agent—the user, the entrepreneur—who is given the responsibility to lead (administer) and to execute the multitude of contracts defining explicitly or implicitly the conditions in which the enterprise can allocate the resources at its disposal (Dobrotă 1992, 101–102).

The handbook includes an interesting section on the “Entrepreneur, Owner, and Manager in the Modern Market Economy.” It introduces the old institutionalist problem of the split between the entrepreneurial and managerial functions.

To sum up: the analysis of relevant texts, such as the evolution of leading textbooks over the years, reveals that there is indeed a sharp distinction between the situations, pre- and post-regime change. Institutional ideas, new and old, start to trickle in, but no clear self-designations in terms of an institutional identity are assumed before the end of the 1990s. Anyway, simply looking at texts was not enough to understand the background and dynamics of change of institutional ideas. For instance, one insight emerging as a result of a closer reading between the lines of the post-1989 material is that in many texts that encapsulate a potential institutionalist viewpoint, especially in those from the early 1990s, the authors embrace that viewpoint with some ideological prejudices. Institutional ideas, even if they are not defined as such, enter again and again to support anti “shock therapy,” anti free-market stances. Also, there is a sense of vague but unmistakable connection between some institutionalist themes and some pieces of nationalist and socialist rhetoric. All of the above shows that we could easily document the change of economic ideas via content analysis, but we fail to fully understand the change, if we do not see the connections with the context and the background of the epistemic community.

A Step Further

We have seen the dynamics of ideas at work: a slow growth in understanding capitalism’s complex institutional architecture. The question is: Could we go beyond the texts and look at the economists and their thoughts? To advance the research, a series of interviews were

conducted with economists, decision-makers, public intellectuals, and other public opinion leaders involved in the production and dissemination of economic ideas. By doing that we have taken a step further in exploring an interesting fact: the “institutionalist” bias among the Romanian economists. Out of the interviews, one major theme—the uneasiness with the way Western economics, as taught at European and American universities—is/could be anchored in the local reality, and beneath that an uneasiness with Western mainstream economics which “neglects a real understanding of institutional and cultural realities.”

That is to say, for those interviewed, the most important issue seemed to be the very method and framework of the Western approach to economics. And this is the point where the issue of institutions becomes salient in an intriguing way. Romanian economists start by noting that Western economics is grounded in Western institutions and history, and that Western economists do not seem to be aware of that:

Western economics, as I perceived it, is very insensitive to other types of economy than the ones that are developed, that managed to develop sometime after 1800, and that are already institutionally different from the rest of the world.

The comments of the respondents seem not to be driven by resentment or ideology. They made a clear distinction between those Western approaches that are more sensitive to their concerns and the mainstream approaches:

Development economics at least tries to make an effort to approach and understand the cases of developing countries or non-orthodox economies that are different from the Western ones. It seems to me that they have over-complicated themselves in some schemes that do not already have any necessary relevance, either for economic policies or, I would say, for a concrete analysis of a specific situation.

Thus, the theme of analytical realism and concrete empirical and institutional knowledge emerges as central. It is hard to overemphasize the importance that the interviewees assigned to the issue of connection to “real life problems” and to the perceived lack of realism of Western economists:

A large majority of the economists from there [the West] are not connected to the challenges of the real world and they live in a certain

detachment from the economic realities and, I would say, even in a certain contempt of the real economy.

Related to that is a criticism of excessive formalism and econometrics. Western economics is seen by many as deficient through its excesses:

The excess of econometrics is exported and this is not something to make you happy, you know, “scientific is only what can be measured.” This is not something that benefits in the long term.

It is important to note again that reluctance and criticism are not radical, and in no way seem to be the result of pure resentment and frustration—all those interviewed had a moderate tone and showed a thought-out understanding of the problem.

The popularity of such perceptions among Romanian economists is demonstrated by the fact that even those studying abroad, and thus having a systematic and inside exposure to Western thought, seem to have similar opinions:

Economic science, as I perceived at an American university, is very insensitive to other types of economies than the ones that are really developed. So, probably if you asked me whether I should choose another department, I would say that I would like to study development economics, which appears to be a subfield that has made an effort to understand and theorize the cases of the developing countries, which are, after all, very different from the West.

Is the asymmetry between Romanian economic discourse and Western discourse so huge? Our local respondents acknowledge the difference but downplay it: “Yes, I think there is an asymmetry, which is maybe not so unnatural, considering we are the ones that have to catch up and apprehend some fundamental principles, toward which we are heading or we wish to head.”

However, some acknowledge, in the end, that they were less surprised by this asymmetry than by what they perceived as a “disconnection from the institutional reality” on behalf of the Westerners. Again and again, the issue of understanding institutions is equated with “understanding some realities from these countries.”

To conclude, the notion of institutions looms large within the discourse of Romanian economists, young and old. Indeed, in a few cases institutions were a code word for a mild form of intellectual chauvinism.

Thus, the sources of this intriguing presence of the notion are likely to be different from case to case. The question then is where this interesting convergence comes from? This concern with the institutions preceded clearly the rage of neo-institutionalism that hit the academic community in the mid-1990s.

Understanding the Underlying “Institutionalism” of the Romanian Epistemic Community

Romanian public economic discourse was characterized by a strong discontinuity. The greatest influence on it was exerted by continuous concern with nationalizing economics in the interwar years, that is, with the obsession of making economics both normatively and conceptually nation-specific. A look at Joseph Love's 1996 work gives us a clue why that type of rhetoric, concentrating on local specificities as opposed to Western influence, was so resilient in the Romanian economic culture. The key is the so-called economic structuralism, an approach that, in Love's view, was at least to some extent pioneered by Romanian economists. Summarizing the problems that, according to him, give substance to this school of thought, we will recognize recurrent themes of the prevailing Romanian economic discourse: reticence regarding market mechanisms, the problem of labor force, and the structural rigidities and distortions that make an adjustment toward equilibrium ineffective. Institutional, cultural, and historical specificities are crucial in understanding those rigidities. One may also add the problem of trade, and especially that of the international economic system: the assumption that it harms the developing countries. Finally, there is the problem of the role of the state and its institutions in the economy, specifically, the role of the state in economic growth. Accordingly, countries like Romania should be dealt with by economic theory and policy as *sui generis* cases.

In the 1970s and 1980s, the Romanian economic discourse transcended the Stalinist slogans and began to look more and more like the *dependencia* theories of the Latin American school of Cardoso and his associates. This was not only due to the foreign policy of Bucharest's leaders toward the Third World, but also due to an internal movement of intellectual recovery of the prewar national school that happened to be in line with the Communist Party's policy. With their mutual elit-

ism and anti-capitalism, German Historical School approaches and old institutionalism in general were favored—not so much in letter but in spirit. So, it should be no surprise if we notice that, well into the 1990s, a significant part of the economic rhetoric still contains a “national” nuance. That is in line with the dominant tradition of Romanian inter-war economic thinking and the partial revival of that tradition in 1970 and 1980. (Indeed, the economic policies of the Ceaușescu regime were a unique combination of interbellum ideas coming from authors such as Manoilescu and “dependency” novelties like those produced by Wallerstein). That means that Romanian economists had, in fact, always shown a propensity to focus on local institutions. Less attention was given to formal models and quantification, and a lot of attention—even under communism—was dedicated to minutia of institutional aspects of “national” significance. But whether or not that was institutionalism in the Western sense is another issue. For instance, one thing emerging as a result of a closer reading of the post-1989 texts is that there is an elitist and leftist bias whenever institutionalism is invoked, especially in the early 1990s. Institutional ideas, even if they are not defined as such, are emerging again and again to support “anti-shock-therapy” ideas.

To conclude, while a content analysis offers interesting insights in the evolution of ideas regarding the economic institutions of capitalism, only a series of interviews followed by a historical analysis might offer a clue as to why there was such a persistent interest in institutions in the Romanian epistemic community, both before and after 1989. Therefore, signals that may seem to indicate a “new institutionalist” explosion should not be confused with the adoption of the real thing. Romanian “institutionalism,” at least for the large part of the transition, had different roots and sources of inspiration. Only recently, as a new generation comes of age, is an alignment to the Western neo-institutional revolution taking place.

New Institutionalism

Once the issue of the institutionalist predisposition of the Romanian epistemic community has been explored, the question is whether and how that has been translated into (a) university curricula; (b) papers in professional journals; and (c) public policy. Our main observation should

not be a surprise: Despite its institutionalist affinity, the Romanian epistemic community has not caught up (as one may have expected) with the neo-institutionalist rage of the 1990s.

In the early 1990s, Romanian higher education in economics found itself under pressure to provide—in the shortest time possible—a large number of educated specialists and decision-makers who were needed for the new economic system. A lot of effort was made to keep up with the demand. But a brief look at the curricula from the Academy for Economic Studies (ASE)—the largest and most powerful institution of economic education in Romania—reveals that neo-institutionalist ideas were far from being a significant part of the main effort.

One can see a familiar pattern. In those early days, while the technical or auxiliary classes usually avoided getting into much detail regarding property rights, markets, and capitalist firms, the core classes could not avoid such topics. A certain anxiety, due to the complete turnaround of definitions, is observable when looking at the content of the typical ASE Political Economy class between 1990 and 1995. For instance, although the central role of private property is acknowledged, this is usually followed by qualifications designed to smooth its possible “radical” interpretations. The course bibliography includes a mix of core readings belonging to Keynesianism, Monetarism, and notable Austrians (Schumpeter, in particular). But it is obvious that Keynesianism was used as a way of tempering the conceptual transition. Similarly, the free market is subjacent to all theoretical explanations; when it comes to practice the risks posed by its “natural tendency to monopoly” or by “natural monopolies” render it almost irrelevant. Furthermore, overarching concern with wealth distribution permeates all the other issues. But no significant new institutionalist references appear, while old institutionalism continues to be just a loosely understood notion, flagged from time to time. Only the class “Economic Doctrines”—under professor Alexandru Taşnadi—seems to have taken steps in the direction of introducing students to the institutionalist tradition. This class knowledgeably describes the rise of classical institutionalism. American institutionalism at the turn of the century is introduced: Veblen, Mitchell, Commons, as well as their sources of inspiration: the German Historical School and Max Weber’s ideas. The presentation covers the theory of conspicuous consumption, Mitchell’s business-cycle theory, and the transformation of institutionalism into *dirigisme* via the New Deal and Galbraith. The follow-up

class on “Economic Doctrines in the Second Half of the Twentieth Century” primarily presents the Austrian School. It ends with a presentation of Public Choice, which depicts the contributions made by Buchanan, Tullock, and Downs, as well as the centrality of their thinking within social sciences. Another class on the “Economy of the Public Sector” discusses public choice in more detail. It includes a section on “Collective Choices” where social choice theory and public choice theory are compared. The chapter presents Arrow’s paradox and its solutions, as well as the implications of Public Choice theory on budgetary processes and the provision of public goods and services.

Several other schools and departments in Bucharest also provide new institutional theory classes which cover its most important applications and authors in political science, sociology, and political philosophy (such as the Faculty of Political Science at the National School of Political Studies and Public Administration, under professor Adrian Miroiu; the Faculty of Sociology of the University of Bucharest, under professor Lazăr Vlăsceanu; and the Faculty of Philosophy of the University of Bucharest, under professor Radu Mihai Solcan). It is most peculiar that the impact of new institutionalism is higher in disciplines other than economics. After all, the new institutional analysis seems to be on the track to occupy a central position in the curriculum, at least in disciplines other than economics.

From the relevant Romanian economic journals, we looked at the mainstream *Economic Journal* that was published between 1998 and 2006. Other journals like *Amfiteatru* and *Economia* deal rather with technical and more specialized economic issues. So using the *Economic Journal* was a natural choice.

Overall, the *Economic Journal* tended to ignore the existence of institutionalism as a distinct category of contemporary economic theory, and thus institutions were treated with a limited theoretical apparatus. Laws, treaties, regulations, and especially public or international organizations were largely conceptualized as inert necessities in the ecology of economics. For example, an article discussing global governance worries about the slow pace of development of government institutions in relationship to economic challenges. In this case, an understanding of the emergence of spontaneous institutions might have reduced the anxiety. But rarely, if ever, are institutionalist ideas, be they evolutionary or constructivist, contemplated in earnest, based on serious bibliographical examination.

There are a few exceptions. One of them is the first article in the new series of the journal appearing since 2003 “Economic Theories Regarding Transition of Ex-Communist Countries,” a paper by Ana Bal (2003). It discusses the transition to market economies in Central and Eastern Europe in the light of the two dominant perspectives regarding the market: the neoclassical and the neo-institutionalist. The argument contrasts neoclassical/neoliberal doctrine (represented by Friedman and Hayek) with the neo-institutionalist one (championed by Coase) and related approaches (Arrow, Buchanan). The article associates the neoclassical theory with a view of the markets as existing by themselves—independent of other conditions. That explains the strong neoclassical advocacy of shock therapy—the immediate liberalization of markets plus privatization, followed by the establishment of institutions, over time. The article continues by noting the failure of neoclassical-inspired transitions and the general disappointment with them, which, in turn, increased the incidence of the neo-institutionalist approach. According to the latter, the functioning of markets is dependent upon the ante-presence of institutions. Therefore, “historic time needed to rebuild institutions cannot be excessively compressed” (Bal 2003, 7), and consequently, transition can only be gradual.

While not particularly concerned with the theory of institutions, several articles published throughout the new series by Maria Mureșan provide a lucid account of transition from historical institutionalist perspective. Mureșan’s (2006) analysis is extended to the whole period of Romania’s modernizing period. Conventionally, this is considered to have started at the beginning of the nineteenth century, and the article argues that it ends with EU integration in 2007. The perspective employed is, in general, consistent with that of North. While North stresses that a society’s past and future are linked by means of institutional continuity, Mureșan evaluates the meaning of its hiatus created by the communist period and the subsequent efforts to get back on track. The central question is, therefore: What is the impact of these transformations on institutions’ ability to provide the necessary conditions for economic growth and stability?

To conclude: the pages of Romanian academic journals became somewhat friendlier to institutionalism around the recent turn of the century. The few book translations from authors such as Buchanan (1997), Downs (2009), Olson (1999), and Ostrom (2007) cannot yet be considered a significant trend. But these translations are steps for-

ward in embracing the general viewpoint that informs new institutionalism. So a change seems to be in the making. The main thrust is the experience of transition, which combined with the new access to Western bibliographical sources, started to have an effect.

Regarding public policy, institutions and institutional performance as key matters of concern entered the public scene by means of the language used by international organizations such as the IMF and World Bank, and later the EU in widely circulated expressions such as “institutional reform” or “low quality of institutions.” This path produced an important (but only partial) misunderstanding: institutions were largely taken to mean solely public organizations. Coupled with the latter’s visibly bad shape, this bias focused the reformist energies towards improving the public organizations instead of focusing upon improving the actual quality of their output, be it of institutional nature (laws, regulations, and so on) or otherwise (quality of public goods and services provided and so on). This is an important aspect with broad implications on political discourse and the public policies enacted. It encouraged over-investment in public organizations and a neglect of the need to understand the broad functioning of the institutional framework.

The neo-institutionalist agenda, or more precisely, the neo-institutionalist perspective, started to gain some limited influence in the years 2003–2004 when several legislative and regulatory initiatives were aimed at the improvement of the Parliament’s and the government’s institutional output. One of these introduced the notion of public policy and provided for its implementation. Public policy became the new administrative mantra, but it is largely the prisoner of outdated or wrongheaded public administration theories. Starting with 2006, the proposals for constitutional reform and the subsequent developments of the theme in the reformist political and governing programs included sections and norms specifically directed at the improvement of institutional performance by all law-making and regulating bodies. It is obvious that healthcare, pension, taxation, and public administration reform require a serious accordance with institutionalist ideas and some steps seem to have been made in that direction. While none of these positive but timid evolutions are enough to thrust forward a comprehensive reform based on new institutional thinking, the increasing appeal of these ideas in academia and think tanks might set the basis for a long-term influence and even domination of the policy debate.

Conclusions

During the second part of the 1990s and definitely after 2000, the language of Romanian economists and their Western counterparts started to slowly converge. Simultaneously, the institutionalist perspective (at its peak in the West) gained some ground. However, given the expectations that one may have (once the intrinsic institutionalist propensity of Romania's economics community is noticed), it is a surprise to see how ultimately limited the spread of neo-institutionalist ideas and theories were. Yet, the process had a late and slow start and it is not unlikely that the rate of diffusion will have an abrupt acceleration in the years to come.

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Beyond Basic Instinct?

On the Reception of New Institutional Economics in Eastern Europe

János Mátyás Kovács

I did not use the term “institution” in every second paragraph as it recently has become fashionable to do, but I think I understood what a system means, and what the difference is between socialism and capitalism...

—János Kornai (2000)

Even the Ponzi schemes could be considered as “schools.”

—An interview excerpt from Bulgaria

In planning our study of East–West cultural encounters in economics, we were looking for a school of thought that is popular enough in our region to provide us with a sufficient amount of empirical information for a meaningful comparative analysis, and at the same time, identifiable enough to target our inquiry as precisely as possible. New institutional thought seemed to guarantee a large set of scientific theories of rapid expansion that have been “doomed” to flow in Eastern Europe during the past few decades. By new institutional thought we mean, first of all, what is usually called “new institutional economics” (NIE), that is, a great variety of expanding research programs ranging from property rights and transaction costs theory, through public choice, all the way down to evolutionary economics. Owing to the fact that NIE is famous/notorious for a profound interpenetration of economics with other social sciences, interdisciplinary fields such as new branches of economic history, economic policy, economic sociology, law and

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economics, economic psychology (behavioral economics, experimental economics) were also regarded as organic components of the school.¹

A broad and rapidly growing “Western” supply does not necessarily have to produce an upsurge in “Eastern” demand to bring the local marketplace of ideas into equilibrium. Why did we nonetheless expect to explore an exciting, new, and rapidly widening research field in the region? Let me start with self-criticism.

Working Hypotheses: Abundant Imports, Rivalry and Hybridization

In 1993, I portrayed the logic of East–West encounters in economic institutionalism as a large-scale venture of importation accompanied by a rivalry of two Western paradigms (ORDO and NIE) for the hearts and the minds of Eastern European economists (Kovács 1993).² Witnessing the popularity of the concept of *Soziale Marktwirtschaft* in

¹ In order to avoid straight-jacketing our interview partners, we let them define the notion of new institutional economics and the list of relevant authors. As expected, they suggested as many definitions as one can find in the leading descriptions of the field, for example: Hutchison (1984); Coase (1998); Furubotn and Richter (2000); Hodgson (2001); Langlois (1986, 1989); Ménard and Shirley (2005); Nee (2005); Williamson (2000); Rutheford (1994); Aoki (2008); Chavance (2008).

As regards the main authors of the subdiscipline, our respondents referred to nearly the same names. Ultimately, NIE boiled down to a couple of prominent scholars, inevitably including Coase, North, and Williamson. A Nobel Prize helps, as evidenced by the case of Elinor Ostrom who did not occur in the interviews before 2009 at all (the same applied to Leonid Hurwicz), though the names of Buchanan, Fogel, Kahnemann, and Vernon Smith were also rarely mentioned. Gary Becker, Friedrich Hayek, and George Stigler appear, however, rather often among the alleged new institutionalists, not to speak of Svetozar Pejovich who happens to be the only well-known link between East and West in current institutionalist thought.

² By ORDO I meant, with quite a bit of simplification, the Freiburg School and its intellectual milieu with their older and younger followers, without making a distinction between the less and more liberal authors as well as between theorists and politicians. Alfred Müller-Armack, Franz Böhm, Walter Eucken, Wilhelm Röpke, and Alexander Rüstow were referred to just like some works of the secondary literature. Cf.: Alan Peacock and Hans Willgerodt 1989a, b, c; Norman P. Barry 1989; Johnson 1989; Zweig 1980; Watrin 1979. For more recent studies, see: Koslowski 1998; Sally 1996; Vanberg 1998; Albert 2004.

political discourse after communism, and the proliferation of new institutionalist notions such as transaction costs, path dependence or social capital in the economic analysis of the transition to capitalism, I presumed to see an ongoing competition between old (“German”) and new (“American”) patterns³ of institutionalist thought in Eastern European economics. This open-ended scenario with two possible outcomes rested on the following four assumptions:

1. Both major schools of economic science under communism, that is, official political economy (textbook Marxism) and reform economics (market socialism)⁴ will disappear: the former virtually collapsed before 1989 while the latter will merge with old and new institutionalist theories prevailing in the West. The merger may be facilitated by the fact that reform economics (including self-management programs) developed, almost instinctively, quasi-institutionalist techniques of criticizing the planned economy as well as of engineering its reforms.⁵ To put it bluntly, I supposed the existence of a “basic instinct” that might undergo, with

³ This simplistic dual typology was, of course, a result of a larger dilemma discussed (mostly privately) by economists in Eastern Europe already prior to 1989: How could we retain part of our historical/verbal/empirical research style in the long-awaited process of joining the Western mainstream? In those discussions, not only the alternative as such but both sides were presented with nonchalance to sharpen the contrast. For instance, the American wing rarely included references to “old” American institutionalists (much of whose thought was directly imported from the *Historische Schule*) while in presenting the German school the importance of its Hayekian (libertarian, neo-Austrian, that is, in a sense American) extension was underestimated. Important schools such as Comparative Economic Systems, the French regulation school, or the theory of mechanism design would also not fit in well with such a dichotomy. See Note 7.

⁴ At the time, one could hardly believe that a “pure” concept of market socialism cleaned from the dirt of real socialism, and reminiscent of the one used in the “socialist calculation debate” by Oskar Lange and his allies would not fade away from current economic thought. Cf.: Balcerowicz (1992); Bardhan and Roemer (1993).

⁵ These techniques were initially based on concepts of Marxian—political economy-style—institutionalism such as the state-market nexus, self-management, “material interests/incentives,” “property relations,” and “concentration/centralization.” These concepts were complemented by twentieth century institutionalist ideas once they proved too rough in understanding the planned economy and/or too inoperational in changing it.

- a little help from the West, “civilizational improvements” in the future. Quasi-institutionalism would become a veritable one.
2. The institutionalist explanations for severe market distortions in the planned economy such as shortages, sectoral imbalances, and investment cycles, which were put forward by the reform economists between the 1950s and 1980s, can easily be incorporated in the Western literature. Concepts like overcentralization, plan bargaining, regulation by campaign, and the shadow economy will find refuge in the (then) new theories of property rights, government failure, bargaining, political business cycles, and so on—of course, following major analytical enhancement.⁶
 3. Many of the reformers will turn into capitalist “transformers” studying the post-communist economy and designing large-scale deregulation (marketization and privatization) schemes. Hence, they will badly need reliable know-how for understanding and initiating institutional change.
 4. A good part of that know-how is available in the West, but the Big Unknown of scientific development is rather on the demand side. In leaving reformism behind, the Eastern European economists will face, by and large, two rival institutionalist traditions: an essentially verbal-historical one offered by “good old” ORDO liberalism, and a relatively new one based rather on neoclassical-style formal analysis (with increasingly sophisticated game-theoretical instruments) and offered by NIE. Which of the two will be their choice? To put it simply, the former relies on holistic concepts such as economic order, promises to solve real-life problems, and stresses social responsibility and the need to correct the market from outside, whereas the latter prefers methodological individualism and trusts the justice-making and self-correcting power of the market. The former is closer to the local intellectual and political traditions of the ex-reformers (and mathematically less demanding), offers an activist role to the scholars, and is justified, especially in the eyes of older generations, by the European success story of the welfare state between the 1950s and the 1980s. The latter is widely seen as superior in terms of scientific precision and academic strength due to its intimate

⁶Irena Grosfeld’s paper (1992) reflects similar hopes mixed with bitter complaints on the chances that had been missed by Eastern European economists in Westernizing their own thought.

links to neoclassical economics, probably more attractive for the younger generations of economists in the region, and gains legitimation from the comparative advantages of the “American model” *vis à vis* most of the European ones during the 1980s and the 1990s. In sum, the former is assisted by a boring but reliable past that has been supported by theories of moderate sophistication, whereas the latter represents the music of the future, full of risks and perhaps full of Grand Discoveries.

Shortly after 1989, I avoided guessing who the winner could be but expressed some fear from a combination of the old-new propensity of the transformers for state interventionism with resurgent nationalism in the region under the auspices of a statist-conservative-corporatist interpretation of the ORDO program. Thus, part of the latter’s liberal constituents would be suppressed, and the ex-reformers (or even the textbook Marxists) would find refuge in the theoretical construct of a new type of social market economy flirting with a Third Way that is much more collectivist than the one advocated by Röpke—a nightmarish *National-Soziale Marktwirtschaft* somewhere between Mussolini and Mečiar.⁷

Indeed, it was terribly difficult to forecast the winner (or to define the terms of an incidental—local—cohabitation between NIE and ORDO⁸),

⁷ Although this is a recurrent fear in liberal circles of Eastern Europe during the past two decades, reinforced by regime changes *à la* Milošević and Tudjman, Lukashenko, Putin, the Kaczyńskis, and Orbán, new economic authoritarianism in the region has not evolved in scholarly terms ever since, despite its short- and medium-term political success. Nonetheless, if the DIOSCURI project had lasted longer, we would have been happy to study how the rebirth of interventionist rhetoric in the West (for example, in France) during the past few years affects economic thought in Eastern Europe in our time, for one might suspect that the region is exposed to Western imports not only in liberal but also illiberal ideas.

⁸ Combining the two paradigms did not require a major scientific discovery; the pattern was set by the Hayekian (evolutionary) reinterpretation of the old Freiburg ideas. “Only” one had to put the hymn of spontaneity in parentheses, and focus on the market process, rivalry, entrepreneurship, knowledge, and so on, in a dynamic (Schumpeterian) framework. It could be safely assumed that evolutionary economics within NIE would not resist cooperation. Cf.: Schmidtchen (1984); Schüller (1987); Leipold (1988); Vanberg (1988, 2001); Pies (2001). See also: the series *Konzepte der Gesellschaftstheorie*, edited by Ingo Pies and Martin Leschke and published by Mohr (Siebeck) in Tübingen, in which they devote volumes to Buchanan, Coase, Hayek, North, Olson, Williamson, et al.

but it seemed evident that if there was to be a winner it would emerge from the rivalry of these two.

These expectations were contingent on a deep methodological and discursive change in the economic profession throughout the region. Any East–West convergence in institutionalism (even on the basis of ORDO liberalism) depended on a considerable rapprochement between the Western techniques/languages of economics and the local ones. To put it less politely, Eastern European economists could not hope, I believed, for success on the international scene if they continued to insist on their homegrown “quasi-institutionalism,” or more exactly “speculative institutionalism” (think of the amorphous “plan-and-market” and self-management discourses used by the reformers even in the late 1980s). Normally, this kind of institutionalist research program was less empirical and, at the same time, much less abstract-axiomatic than NIE. While it, like ORDO, feared formalism, its empirical strength was often dwarfed by that, too.⁹ Nevertheless, I presumed that learning might become a two-way street: economic sciences in the West would also borrow scientific ideas from our region. In revisiting its own economic institutions under communism, Eastern Europe seemed capable of enriching not only “old” institutional thought but also some of NIE’s core concepts such as fuzzy property rights, informal institutions, incomplete contracts, rent seeking, and so on. It seemed capable of delivering, via the economics of communism, an institutional theory of an unfeasible economy, which could play in economics a similar role to the one assumed by the *perpetuum mobile* in physics. As for post-communism, the region, I presumed, would be able to serve, in the course of the economic transformation, as a potential hotbed for institutionalist discoveries.

These expectations reflected a rather cooperative and frictionless scholarly exchange with the West. What we Easterners want to come in will arrive, and what actually comes in is the same as what we originally intended to receive. Also, to use the language of political correctness, the institutionalist economists in the region were portrayed not as handicapped or disabled but as *differently-abled* scholars who may have authentic products to sell.

⁹ For speculative institutionalism, see Kovács (1992).

Besides methodological adjustment and a “discursive turn,” I argued, the sociological context of economic sciences might also change in Eastern Europe to promote convergence in institutionalist research programs. Presumably, party congresses, censored journals and politically embedded scholars will not determine scientific progress any longer. At the same time, “secular” (politics-free) research communities, peer-reviewed publications, and the faculty library, or the faculty club for that matter, will become the main vehicle of scholarly evolution. Eastern European experts will be subjected to the same kind of rivalry in the academic market (locally and globally) as their Western colleagues, the patterns of recruitment, promotion, and mobility will also be similar, a good part of scholarly output will come from private institutions of research and education, and so on.

All in all, the cast was presumed to include two collective actors on the Western side, the representatives of ORDO and NIE with their cultural packages (research programs, schools, paradigms), while on the Eastern one I saw the vanishing textbook Marxists, the ex-reformers (actually, at least two generations of them including the internal dissenters), and the “innocent youth” appearing on the scene of economic research after 1989. It was also reasonable to assume that generational differences would matter. The younger you are, the greater your chances for receiving proper education in neoclassical economics—a *sine qua non* of absorbing new institutionalist ideas. Here, I thought two kinds of frustration might coincide. Both the inexactitude of the verbal research techniques applied by older colleagues and the sterility of certain just-acquired neoclassical models can prompt young scholars to switch to NIE (without having to lower the level of formal analysis). While being pushed by these, they are pulled simultaneously by new institutional economics in the West, a fresh, flexible, and fashionable discipline that promises the best of old institutionalism and the current mainstream without making the researcher suffer from their imperfections. The Eastern European economist was offered a unique chance of becoming an orthodox and heterodox expert at the same time, who borrows and invents simultaneously, avoiding in this way the path of servile imitation.

If that prognosis is not flawed—so went my argument—the neoclassical paradigm needs to be included in the group of Western actors.

Probably, the spread of this paradigm will also accelerate the diffusion of new institutional economics as an unintended by-product (or collateral damage). However, I disregarded three other options:

- a) ORDO would smoothly withdraw from the competition but neither would NIE become a real winner.
- b) Neoclassical theory would not produce its “Eastern dissidents” for quite some time; moreover, many of its local representatives would keep a low profile on NIE.
- c) Under post-communism, the economic profession would face an “anything goes” (more exactly, an “any theory can melt into another”) situation, in which even hybridization might turn out to be a too courageous working hypothesis.

What was disregarded in the early 1990s has become reality—to my veritable astonishment more than 15 years later when reading the case studies on Bulgaria, Croatia, the Czech Republic, Poland, Romania, Serbia, and Slovenia, and writing the one on Hungary.¹⁰

¹⁰ The case studies focusing on the reception of NIE were based on altogether more than 50 in-depth interviews, literature reviews including books and articles in one or two leading economic journals of the respective countries, curricula analysis at selected local universities, and participant observation. Also, in each country economic think tanks and university departments were examined in similar ways, and much of the information collected in these fields proved to be relevant for research into new institutionalist ideas, too. We avoided basing our conclusions on anecdotal evidence, ideological prejudices, and the like occurring so frequently when it comes to assessing post-1989 developments in Eastern European economic thought. Instead of bashing neoliberalism and shock therapy under the pretext of discussing NIE, or on the contrary, mocking the survival of old-style research programs and the methodological imperfections of some new institutional thinkers, we collected and cross-checked an unprecedented array of empirical material. Actually, we conducted life history interviews starting with the respondents’ first encounters with “the West.” Unfortunately, the cultural encounters were almost exclusively narrated from the perspective of the local experts. Another deficiency: the interviews were not based on representative samples and some of the case study authors themselves were members of the institutionalist research community.

Three Surprises

“Have Polish economists noticed new institutionalism?” asks Jacek Kochanowicz with a skeptical undertone in his case study. Roumen Avramov argues that “NIE’s presence in the Bulgarian landscape of economic science is still incoherent and lacks a critical mass. It can hardly be considered a compact current, able to counter the dominant influences of neoclassical economics.” Vojmir Franičević speaks of “soft” institutionalism (that is, using NIE concepts when they “fit the ‘story’ well”) and a passive reception of new institutional economics in Croatia. In Bulgaria, there is only one consistent curriculum of new institutional economics. Horia Paul Terpe and Paul Dragoș Aligiță warn the reader that “signals that may indicate a ‘new institutionalist’ explosion should not be confused with the adoption of the real thing.”¹¹ Institutionalism has not yet been institutionalized—quite a few authors play with the words.

First surprise

So the first surprise I had to digest was related to the source of melancholy bordering on skepticism that permeated the case studies. Of course, no one could reasonably expect a high-quality breakthrough of the school but *some kind of* a massive breakthrough seemed to be a safe prognosis. In fact, expecting a series of original discoveries at the local level to be published by first-rate journals in the United States, or organizing departments of economics, research institutes, foundations, and scientific journals around the concept of NIE would have been a vast exaggeration, underestimating the minimum requirements of the intellectual gestation and institutionalization of scientific ideas. However, infiltration at a snail’s pace, aborted takeover, eclectic borrowing, simulated appropriation, and so on, that is, patterns of scholarly importation in the framework of a whole series of East–West cultural

¹¹ The authors of the other case studies draw similar conclusions. According to Tjaša Živko, in “Slovenian economic reviews, we were able to identify only one economist who deals with NIE” (“Transfer and Reception of New Institutional Economics in Slovenia,” DIOSCURI case study, 2007). While presenting a much more vivid interest in new institutional ideas in Serbia, Aleksandra Jovanović and Aleksandar Stevanović complain about “second best solutions” in the reception of NIE in their country (“Transfer and Reception of New Institutional Economics in Serbia,” DIOSCURI case study, 2007).

encounters described by the case studies, would have been regarded as predictions of excessive pessimism one or two decades ago.

In fact, our research team launched the project presuming that NIE must have enchanted the economists throughout the region because it offered a paradigm they badly needed, could respect, understand, and believe in,¹² not to speak of the fact that the scholarly supply was well-marketed. A special advantage of the subdiscipline is, says Avramov, that it may serve as a “proxy theory” that can substitute other theories, fill “presumed gaps left by ‘conventional’ economic thinking”; thus, it can please even specialists of diametrically opposing persuasions. Although NIE was packaged in radical/dogmatic libertarian rhetoric from time to time, it promised the local experts a large degree of elasticity: a balanced view of government *and* market failures, a historical approach to the evolution of institutions, multidisciplinary analysis, and so on, that is, scholarly cultures these experts were socialized in. They could expect that at last they would put in precise (yet spectacular) scholarly terms what they had only speculated about earlier, and trust in the long-desired possibility of measuring the variables as well as testing the conclusions.

The encounters by local economists with new institutional theories (and theorists) in the West began in Hungary, Poland, and Yugoslavia in the 1980s or even a little earlier. Initially, the demand was instinctive, sporadic, accidental, and issue-dependent. Typically, the Eastern European economist was searching for a solution of a given problem (for example, simulating private property in Hungary, comparing economic systems in Poland, and reshaping the federation in Yugoslavia); browsed through a few chapters of Western literature; and was enchanted by the discourse of the then emerging school. At that time Armen Alchian, Harold Demsetz, and Mancur Olson were among the most cited thinkers. They were accompanied by scholars like Herbert Simon, Harvey Leibenstein, and even Albert Hirschman who are seldom regarded as “founding fathers” of NIE today. Their arguments could be followed easily by means of mathematical skills honed in the study of the economics of planning and self-management.

¹² Franičević speaks of “ready-made ‘heuristics’ or ‘ideologies’ in the Northian sense” as well as of a “shared understanding of the theory’s importance for the choice of research issues, their framing, and the emergence of a shared policy focus.”

Indeed, NIE's sporadic infiltration¹³ grew into a regular marketing campaign and a simultaneous buying boom in the late 1980s and the early 1990s. The campaign was operated mainly by North American universities, think tanks, and foundations (George Mason, Texas, Atlas, Fraser, Liberty Fund, Bradley, and so on) in all countries of the region, mediated by joint research projects, seminars, conferences, university courses, summer schools, translation programs, and the like.¹⁴ Its impact was reinforced by the first Nobel Prizes given to some of the representatives of new institutional thought (Buchanan, Coase, North, Fogel).¹⁵ The overall climate of reception became especially favorable when the World Bank, the European Bank for Reconstruction and Development (EBRD) and some other international organizations and NGOs replaced their Washington Consensus-style policies with the one using the "institutions/cultures matter" rhetoric.

The institutions-centered message from the West was considerably strengthened by the EU accession of a series of ex-communist states, that is, by the very program of a comprehensive transfer of institutions as well as by the contents of the *acquis communautaire* expressing a quintessence of European capitalism. Consequently, in the Eastern Europe of the mid-1990s, you could join the NIE universum with a middle-of-the-road social-democratic commitment, and you did not

¹³ The case studies suggest that the early reception of new institutional thought was contingent on particular events such as the publication of a volume on law and economics in Hungary, a fellowship received by Leszek Balcerowicz in Germany, or a visit paid to Belgrade by Svetozar Pejovich.

¹⁴ A Hungarian scholar remembers: "In the fourth year at the university, some 'wild liberals' from the George Mason University, I mean, neo-Austrians, came to Budapest and invited those whom they thought would become the new leaders of the country to the West Coast where we ate a lot, admired America, and attended lectures. It was clear that they're obsessed but they didn't expect us to agree with them. They ranged from anarcho-liberalism, through the idea of free banking to the classical liberals, and distributed books free of charge. They were mobilizing Svetozar Pejovich because he had an Eastern European appeal. This I liked very much. At that time, I was a hard-headed liberal but, as time passed, my opinion has gotten much softer."

¹⁵ With the exception of a few ex-Yugoslav (one Bulgarian and one Hungarian) scholars, the local experts were not taught by a prominent Western representative of NIE. As a rule, they met second-rate members of the school (for example, in the framework of training programs), and encountered the top scholars at international conferences or guest lectures delivered by them in the region. Douglass North was among the few "frequent-flyers" to Eastern Europe.

have to quit it even if you cherished arch-libertarian views. NIE is a tolerant discipline, note some of the authors.

A small scientific revolution was in the making—a change that was not forced upon the “natives” of the region. If new institutionalist ideas have begun to colonize them, then that was rather a sort of self-colonization. The local economists were prepared to leave the first stage of reception, that is, writing review articles and organizing introductory seminars, for launching their first real research projects to adapt and test foreign models of privatization, anti-trust regulation, corruption, and the like. Our case studies contend that NIE got stuck in this introductory phase in many respects; in other words, the *rite de passage* was interrupted or slowed down considerably. New institutional ideas have not become part of the “spiritual capital”¹⁶ of Eastern European economists’ epistemic community.

Today, with the exception of a few tiny islands of NIE (such as the Department of Law and Economics at the Law Faculty of the Belgrade University or the Institute for Market Economics in Sofia), one sees a few lonely scholars scattered over the region without any regularity. More exactly, there *is* a rule: no country shows extraordinary achievements in developing new institutional economics, no matter if the local economists encountered the West earlier or later. Apparently, stagnation has an egalitarian nature. As years go by, the inhabitants of the islands are happy if they survive somehow. They cannot hope for strongly affecting their own research environment soon. The typical NIE specialist in Eastern Europe continues to popularize his/her favorite authors and models, writes in domestic journals, and in the best case, applies already existing (Western) knowledge. (As a Romanian respondent complains, “we are the measurement guys at the end of the chain.”) None of the case studies reports on an article published by a local expert of new institutionalism in a foreign journal of high reputation.¹⁷ University courses of new institutionalism do not offer a com-

¹⁶ Cf.: Kovács (2010).

¹⁷ A notable exception is a group of Russian scholars at the Higher School of Economics and the Russian School of Economics in Moscow. Among them Sergei Guriev, Viktor Polterovich, Vadim Radaev, Konstantin Sonin, Ekaterina Zhuravskaja, and others have been publishing in journals such as *Econometrica*, *Journal of Economic Perspectives*, *American Economic Review*, *Quarterly Journal of Economics*, and so on.

prehensive picture of the school; instead they focus on a narrow selection of “famous” authors. In most countries, just a few classic volumes written by leading theorists of new institutionalism were translated. Renowned institutions such as the CERGE in Prague or the Institute of Economics in Budapest can easily afford to operate without any permanent contribution by NIE scholars.

Second surprise

My next surprise stems from the fact that in Eastern Europe (just like in the West) new institutionalism does not compete with the old one but rather with the neoclassical paradigm. In other words, NIE has no noteworthy rival inside institutionalism as well as no strong ally outside. As mentioned above, American-type old institutional thought (ranging from Thorstein Veblen through John Commons and Wesley Mitchell all the way down to John Galbraith, or even to Geoffrey Hodgson) has never been popular in the region. As a contrast, the German/Austrian tradition did influence the economists in East-Central Europe (less in Serbia and Bulgaria) before and even under communism, no matter how ambivalent that tradition may be.¹⁸ Today, however, ORDO liberalism appears condensed in three sentences on *Soziale Marktwirtschaft*, above all in party programs. One finds in most countries Hayek societies, clubs, and institutes but they are noisy rather than strong in scholarly production.¹⁹ The marginal role played by the libertarian wing of old institutionalism is evidenced by the example of neo-Austrian economists in Romania who, believe it or not, flirt with the Orthodox religion. (This is not exactly what one has in mind when one recalls “Hayekian orthodoxy” in the history of economic thought.)

¹⁸ As the Romanian example suggests, old institutionalism does not necessarily have to originate in ORDO. It may borrow from other types of interwar theories such as “economic structuralism” that was conserved in the works of Mihail Manoilescu and instrumentalized by the national communists in the 1970s and 1980s.

¹⁹ Let me refer again to the unease I still feel reading, more than twenty years after 1989, about the “triumph of neoliberalism” in Eastern Europe. Cf.: Bockmann and Eyal (2002); Aligică and Evans (2009); Kovács (1991, 1992, 1998).

Why do I speak of a rivalry between NIE and mainstream neoclassical theory?²⁰ Why is the latter reluctant to identify itself with new institutional thought in Eastern Europe? (More exactly, why is it perhaps more reluctant to do so here than in the West?) Mainstream scholars in both the West and the East contend that they have already identified themselves with NIE by incorporating many of its discoveries into the main body of neoclassical thought or its applied subdisciplines.²¹ In Eastern Europe they also claim that there are no significant scientific results produced by new institutional economists on both communism and post-communism to incorporate. Finally, they tend to discover some dark spots in the local genealogy of NIE after 1989. Providing easy refuge for former textbook Marxists and reform economists to survive,²² and offering a good pretext to avoid renewing their research techniques constitute two main reasons for suspicion. (As one of my interviewees, a neoclassical expert, exclaimed, “when will ‘these’ learn at last to set up an equation?”)

Third surprise

Our case studies suggest that, today, virtually any paradigm can couple with any other in Eastern European economic sciences. That was the third—probably most shocking—surprise to me in this project. Of course, as an alumnus, I am extremely frustrated by the story of the former Karl Marx University of Economics (today, Corvinus University), which demonstrated, in the first years of the twenty-first century, a strange coalition of thoughts (and interests) among a very old professor of the history of economic thought, an old expert of verbal-style international economics, a former party apparatchik in the Central Committee (currently, he is professor of public choice), and a young specialist of micro-economics who has strong Marxist/anti-globalist views; a coalition cemented in an opposition to teaching modern

²⁰ Ironically, both parties have less to fear from each other than from the recurring indifference toward economic theory in Eastern Europe, and from what is called the “business-schoolization” of higher education in economics.

²¹ In Croatia, says Franičević, young economists prefer to regard themselves as representatives of “modern economics” to circumvent strict disciplinary limitations. I am afraid that the same applies to their Hungarian colleagues.

²² “North was also a Marxist in his youth, wasn’t he?” asked one of my Hungarian interview partners.

neoclassical theories.²³ Unfortunately, this is by no means an exotic example, like the above-mentioned oxymoron of “Hayekian orthodoxy” in Romania. Another Romanian invention, namely, combining the German historical school, structuralism, nationalism, old-style development theory, and new institutionalism, also gives birth to an interesting scientific creature. Concepts come and go, and the rate of fluctuation of the attitudes of their representatives is rather high. One of the Croatian respondents calls himself a “survivalist,” another one an “eclectic by default.” A Bulgarian interview partner says: “There is no inconvenience in declaring oneself a follower of one, and later of another theory. The wise man keeps under control the instruments and the concepts he utilizes.”

What is the reason for these “postmodern” conditions? Did Western supply diminish? Did the wheels of the mediation mechanism start squeaking? Or did local demand ebb? I think all these factors were instrumental in the slowdown of reception. Obviously, the potential supply of NIE theories did not decline (just the opposite was the case) but the attraction stemming from the novelty of exchange of ideas definitely decreased. On the supply side, the scholarly interest shrank owing to a Western-style consolidation of economic research and education in Eastern Europe, which nonetheless did not result in breathtaking scientific discoveries. The “missionary” stage of exporting new institutional ideas to the “savages” was continued by a tedious process of piecemeal construction and legitimation of the subdiscipline at the turn of the century. The Western think tanks, foundations, and specialists began to withdraw from the region, leaving the “converts” behind. Some of the latter had to prove how one does empirical research in NIE without experiencing substantial institutional change—a potential *contradictio in adjecto* in countries of sluggish transformation.

On the demand side, new institutionalism did not lure neoclassical scholars out of their world of more abstract model building. They were on an exciting learning curve, exploring the secrets of the “Grand Theory” with its booming applications that, as mentioned before, have

²³ See Balázs Váradi, “Karl Marx Learns Microeconomics” (DIOSCURI case study, 2007). The dire straits of teaching economic theory at the university led to the establishment of Eltecon, a new department of economics at the Eötvös University (ELTE), Budapest, which in its curriculum strives to combine the neoclassical paradigm with old and new institutional thought.

already included a number of NIE-type solutions. “If I use nice rhetorical twists like ‘path dependency,’ do I learn anything tangible about the economy; will I be able to make better predictions?” asked one of my interview partners, a macro-economist by profession. Furthermore, what was an advantage in the eyes of the institutionalist experts, namely, the closeness of NIE to the politics of transformation, appeared to the mainstreamers as a disadvantage. Witnessing how often the post-communist governments were improvising large-scale institutional change using primarily *old* institutionalist rhetoric did not help convince the neoclassical specialists to join forces. In the Czech Republic, for instance, the voucher privatization scheme based on allegedly Austrian evolutionary principles triggered sarcastic remarks from our respondents in the mainstream camp. Also, today they think twice before joining the “ghetto” of new institutionalism after having been released from their own, euphemistically called “mathematical economics” prior to 1989. Apparently, low-quality institutionalism is a weak challenge for the local mainstreamers to change their mind. “Why should I love the Eastern European clone,” asked the same Hungarian respondent, “if my American colleagues are not delighted with the Western original of a certainly higher quality?”

A reason for optimism?

That has been the pessimistic story. Is there an optimistic one as well? Most case study authors contend there may be one. Their skepticism with regard to the past is combined with the implicit assumption that in Eastern Europe new institutional economics is in a state of silent accumulation; it is like a subterranean river that may burst out in the near future.²⁴ They refer to NIE specialists (predominantly young ones) who have made huge efforts to have the standard works of the school published and to launch university courses that may result in a number of new experts and promising publications with some delay. They also call the readers’ attention to other social sciences such as sociology (Bulgaria, Hungary, Poland), law (Hungary, Serbia), political science (Croatia), psychology and history, which often apply new institutional concepts in their borderlands with economics. Frequently,

²⁴ A “sinuous path,” to use Avramov’s phrase, may have an upward thrust in the years to come.

new institutional arguments are used in scientific debates without referring to their original sources. In other words, the case studies speak of an invisible proliferation of NIE in the academia and beyond without calling it so. Public policy and corporate governance are highlighted in particular as fertile grounds for the diffusion of the philosophy of the school and for the mushrooming of NIE models ranging, for instance, from deregulation of public healthcare to devising the incentives of an “intrapreneurship” scheme. What did not work well in academia might do so in everyday economic life. Of course, the results vary: while new institutionalist concepts were successful in the pension reform, says Kochanowicz, they did not fare well in reshaping health-care in Poland thus far. The Croatian case study reports on the success story of public finance.

Last but not least, a new push from the West may facilitate its reception as well. Those who put their faith in a fresh start could not have imagined a better chance than a Nobel Prize given to Elinor Ostrom and Oliver Williamson for research on economic governance, a most vital theme in Eastern European economics today.

A Hungarian Sonderweg?

To avoid misunderstanding upfront, I would not consider the evolution of new institutional economics in my country unique. NIE is characterized by similar ambiguities and failed expectations in Hungary as in other countries of the region. A few specific traits seem, however, worth noting. Let me proceed briefly about the above-mentioned three surprises.²⁵

As regards the expected Western breakthrough in institutional economics after 1989, Hungary has also belonged to the “laggards” thus far. NIE did not invade the local research community; at the same time, ORDO did not disappear entirely. The latter is cultivated at small, conservative—Christian-oriented, including German-language—universities, typically with no emphasis on Schumpeter and Hayek. In addition, a sizeable group of former reform economists still cherish the idea of the social market (some of them had borrowed the concept from the disciples of Paul Hensel’s Marburg School back in the 1970s and

²⁵ Below I will rely on my case study “Missing the Chance? On the Reception of New Institutional Economics in Hungary” (DIOSCURI case study, 2007). Just a few names will be mentioned. For part of the references, see: Kovács (2002)

1980s). The political parties in Hungary, no matter if they preach conservative, liberal, or socialist values, have retained a diluted version of the Freiburg ideas in their programmatic documents since 1989. Sometimes they paint them green a little by using the term “eco-social” or, on the right wing, squeeze them into the concept of “national market economy” (or even “national and social market economy” or “eco-social national economy”). A clear consequence of the long accession to the EU, it reinforced, at least on a rhetorical level, the “socialness” of the market concept right before it began to wane in the region due to global pressures.

To be sure, the “Austrian extension” of ORDO did not entice even the liberals in my country. A faithful free-market rhetoric resembling that of Václav Klaus or Leszek Balcerowicz has never been popular among Hungarian economists. Prior to 1989, the reformers spoke their deliberately non-ideological language with a slight social-liberal accent and marginalized the only anarcho-liberal thinker among them, Tibor Liska. Also, a less pragmatic source, the Karl Polanyi legacy of doubting the virtues of the “self-regulating market,” was robust in economic sociology and has proven such until now. That doubt is a recurrent motive in Iván Szelényi’s studies of the new capitalisms in the region (he coined the term “comparative critical institutionalism”) as well as in Béla Greskovits’ political economy writings. Although the American sociologist and Hungarian expert David Stark imported a few helpful evolutionary ideas, these lacked formalization as required by NIE. The roots are deep: to quote an older interview partner of mine, “until the 1980s, my only encounter with a Western economist was Galbraith when he visited the Hungarian Academy of Sciences, and made funny remarks there. What he said about institutions was more important than his analytic thoughts.”

Traditional Austrian economics had first been applied in the critique of Marx in the “Lukacs Kindergarten” at the turn of the 1960s and 1970s. Following a more than a decade-long break, it enchanted only a few young experts at the end of the 1980s. Neo-Austrians have been basically unknown in Hungary until today. Hayek was easily defeated before he could have won by both the need for social engineering in the first phases of the post-communist transformation and the rapid inflow of neoclassical economics, in the mirror of which his ideas seemed ideological, imprecise, and dysfunctional to many. Apart from a former finance minister, Lajos Bokros, there are only a handful of

scholars who subscribe to quasi-libertarian views in economic science from time to time. Their younger colleagues of similar persuasion (such as those in the “Free-Rider Society”) are standard neoclassical researchers and/or new institutionalists—a much bigger group due to the growing popularity of the mainstream.

In the prevailing spirit of pluralism and pragmatism inherited from the local (self-conscious or self-conceited?) version of market socialism, it was not only the neoliberal doctrines that proved unable to fascinate the institutional economists in Hungary but also any strong attempt at formalization. Outside of “mathematical economics” and its successor, neoclassical theory, speculative institutionalism has remained the main genre of economic research although speculation became less and less tantamount to analytic imprecision, shaky realism, and normative thinking imprinted in reformist thought under communism. Verbal methods, that is, a descriptive rather than analytic approach, conceptualization rather than measurement, case study writing rather than model building, historical arguments, thinking in terms of Big Systems and Grand Designs, and so on still dominate the *oeuvre* of the institutionalist research community. The intellectual path of its members leads, simply put, from (Eastern) speculative to (Western) old institutionalism and leaves open the opportunity of switching from old to new institutional economics. Probably, the best example of missed chances was offered by studies of the informal economy, an extremely progressive field of economic research under communism in Hungary, which, despite its large resonance with NIE, stuck with the old-institutional research program with most scholars.

The protracted and messy “return to the West” (more exactly, to one of the Western traditions) cannot be understood properly if one disregards another Hungarian specific, the immense authority of the role model of the economists’ older generations, János Kornai. For a long time, he distanced himself from reform-making, superseded most of his colleagues in systematic description and formal analysis, and was keen on evolutionary change, yet failed to open up to accept Western institutionalist paradigms. This only happened rather late, in the early 1990s, and even then Kornai moved ahead in his own proverbially cautious manner. He borrowed from both ORDO (for example, comparative economic systems) and NIE (for example, social trust), less instinctively than before, but nonetheless avoided subscribing to any of them wholeheartedly. What is more, at a certain point, he started

mocking the Eastern European “vulgar Coaseists.” Probably, with the exception of his favorite concept, the soft budget constraint, he continued to apply verbal/historical schemes and work with holistic notions (for example, the “system paradigm”) instead of testing established NIE models or inventing new ones in the world of post-communist transformation. As the first motto of this paper shows, he thinks this to be a mere linguistic problem. Kornai’s long-time doubts about general equilibrium theory as well as his strong fear from emulation or simulation (“aping the West”) still prevent him from devoting himself to neoclassical research, and consequently, from joining the NIE epistemic community. To be sure, mathematics has not been a barrier to entry in his case.

Despite the above mentioned obstacles, the debut of new institutional economics in the Hungary of the 1980s was fairly promising. Individual essays or volumes by Anthony Downs, Ronald Coase, Albert Hirschman, Mancur Olson, Herbert Simon, and George Stigler were already translated into Hungarian. A majority of the leading journals of modern institutional thought were available in the Budapest libraries. Thus, a good part of the early property rights and transaction cost theories (Alchian, Coase, Demsetz, Pejovich, Williamson, et al.) were known among some liberal-minded scholars (including radical reformers). As early as 1990, Péter Galasi and Gábor Kertesi published a pioneering model of corruption in the public sector, which was based on the Jensen-Meckling model. In the Rajk College of Advanced Studies of the Karl Marx University students and young professors jumped into studying a large variety of NIE-related issues, including then unorthodox ones (for example, social networks, capital, and trust). Many of them were enrolled later at Western universities. A Yale alumnus remembers: “I learned economic history, the American version, Fogel and others, with econometric hypotheses and a counter-factual approach —I was totally enchanted by it.”

During the early 1990s, a translator and editor of a number of Western institutionalists, László Csontos, who had given a series of formal and informal seminars in Budapest over the 1980s, returned from Connecticut where he worked together with Richard Langlois and started teaching at the Central European University (CEU). With the help of his rational-choice-based (methodology-prone) institutionalism, he not only multiplied the number of adherents to new-institutional fields of economics through teaching and research projects but

also represented a multidisciplinary approach to NIE, thereby mobilizing sociologists and political scientists, too. In a number of review articles, János Vincze popularized the then cutting-edge achievements of the economics of information and evolutionary economics. New translations were published (Buchanan, Pejovich, Elster, et al.) and those interested in the new results of new institutionalism started contacting the leading Western scholars in the framework of study trips, workshops, and the like. By 1996 or 1997 the first review article on the reception of NIE in Hungary was published by László Szakadát.

Yet, the “triumphal march” ended shortly thereafter (partly due to the premature death of Csontos), and the Hungarian story of reception became at least as vague and fuzzy as in the other countries. Besides the younger adherents, the subdiscipline was frequented by opportunists who blurred the boundaries of NIE with textbook Marxism, transformation studies, and old-style Comparative Economic Systems. They also preserved crucial teaching positions at the largest universities (while the CEU did not become a real counter-power in this field), determined the editorial policy of the main economics journal, *Közgazdasági Szemle*, and occupied the Hungarian section of the relevant international associations of new institutionalists. (*Nota bene*: NIE’s liberal interpretation can also be challenged from the other side of the political spectrum: during the past decade, young experts have already appeared among the national-conservatives, experts with firm neoclassical background, some of them well-versed in new institutionalism.)

Many of the young and middle-aged institutional-oriented talents turned (back) to “clean” neoclassical research and/or preferred applied varieties of NIE (above all, in labor economics, industrial organization, and public policy) to the abstract. Alternatively, they left the country, thereby weakening the process of the subdiscipline’s self-organization and legitimation in Hungary. Its low prestige is also evidenced by the fact that, apart from a volume of essays in economic sociology (Zoltán Szántó), no synthetic work interpreting new institutional thought has been published yet. The translated volumes, however, did not cease to appear (North, Acemoglu, Rabin, et al.), not to speak of a new genre, the institutionalist textbook (Cooter-Ulen, Cullis-Jones, D.B. Johnson, Milgrom-Roberts, and Stiglitz) or the neoclassical textbook with significant NIE chapters (Hirschleifer and Williamson). That genre reflects the spread of path-breaking university courses all over the country in new political economy, law and economics, behavioral economics,

new economic history, economics of development, and so on. This vibrant innovation in higher education (or on its margins) over the last decade, perhaps another Hungarian specific, has not reached the economic journals yet. During the past fifteen years, for instance, *Közgazdasági Szemle* has not published a single article by a Hungarian author who would have suggested an authentic model/concept in new institutional economics or tested existing ones on local data. Undoubtedly, this demonstrates the relative poverty of institutionalist research in the country but is also a clear sign of the editorial strategy of a journal that otherwise carries a great number of superficial papers discrediting or misinterpreting various branches of NIE. All in all, the scholarly interest has not vanished, the attraction of the fresh NIE theories seems fairly high, and the nascent capitalist regimes in Hungary lend themselves to institutional analysis no less than post-communist transformation did. Hence, one cannot exclude a new upsurge in the reception and creative application of new institutionalist ideas in the near future. What is today lurking in the background in the form of reading the literature and making applied research projects may come to the fore and undergo a synthesis tomorrow.

“Irregularities” of Cultural Encounters

The East–West encounters²⁶ in new institutional economics display a great number of peculiar traits, that is, irregularities as compared to a simplistic scheme describing an exchange between two actors of different cultural assets and power positions or of a linear sequence leading to a final cultural compromise dominated by the stronger partner.

1. By and large, the place of encounters has become indifferent by now: the individual countries and subregions do not diverge in

²⁶ Like in the two other fields of our project, the concepts of “East” and “West” had to be nuanced. Today, many Western professors, co-authors, and project partners can also be encountered in the capitals of Eastern Europe (for example, as an employee of CASE in Warsaw or CEU in Budapest). To complicate the issue, a Western professor can actually be a repatriate or an Easterner who was educated in the West. There he/she may have been taught by an Easterner or vice versa. Moreover, the professor may be a Pole teaching a Czech student at a Moscow University. An example from our field: as Avramov reports, a Russian NIE textbook was also used at Sofia University.

terms of the exchange of ideas concerned.²⁷ Nevertheless, if they do, South-Eastern Europe does not lag behind East-Central Europe (for example, Serbia and Croatia demonstrate a faster and deeper reception of NIE than the Czech Republic and Poland).²⁸

2. Time seems to affect the encounters primarily through the age of local actors, especially due to the fact that the adjustment process took new dimensions in 1989, and the new generations of economists have been socialized in Western-like (or Western) education and research institutions.
3. As for the time structure of encounters, the period of high-intensity (although rather superficial) exchange is followed by stagnation with a hope for a new upswing. The strength of the first push has evaporated and the outcome of the stagnation (silent accumulation?) is uncertain at the moment.
4. In many cases, cultural adjustment is a one-way street leading from the West to the East (it rests on imitation and recombination rather than local invention) but it has its own limits. In addition, at its Eastern end, the actors hardly learn from each other across the country lines.
5. The encounters are basically geared from the West by “remote control” (that is, the Western partner is present in his/her thoughts rather than physical self). Actually, this is a rather weak kind of instruction challenged by powerful local pressure in- and outside the academia. In addition, one sort of Western influence can be impeded by another one: The neoclassical mainstream both helps and hinders the reception of new institutional economics.

²⁷ In a sense, the place of encounters did not matter much in scientific encounters even before the age of the Internet because it often sufficed to read an article or a book to bring cultural adjustment in motion. Nevertheless, during the 1960s, 1970s, and 1980s, the opportunities of taking part in study trips, conferences, guest-professorships, and so on in the West were not evenly distributed among the countries of the region—an inequality favoring Hungary, Poland, and Yugoslavia.

²⁸ Interestingly enough, the distribution of the Western places mentioned in the interviews show a peculiar balance between Europe and America. In contrast to my expectations, neither a special attraction by German scholarship (for example, Freiburg or Marburg) nor the dominance of some NIE strongholds (George Mason University, University of Texas, Washington University, St. Louis, and so on) are noticeable.

6. Both open resistance and dedicated emulation are rare; at the same time, eclectic and simulated adaptation is fairly frequent.
7. For the time being, the emerging compromise in institutionalist thought seems to be closer to the Eastern European point of departure, resulting in a kind of “updated”/“remixed” old institutionalism. Yet, supported by the takeover of the neoclassical paradigm (a takeover characterized by overt emulation), the local NIE hybrids may “go West” in the future.
8. The chance for a smooth evolution toward new institutionalism has not been exploited. The old epistemic community began to disintegrate but remained strong enough to prevent the consolidation of a new one. Its strategy was involuntarily assisted by the fading interest of NIE’s Western core in Eastern Europe, and as a consequence, in the development of ideas in the region, and by the suspicion felt by the potential local ally, the new mainstream devotees toward institutionalism *per se*.

On the outcomes of Encounters: Detecting Cultural Hybrids

For the time being, the case studies are far from offering a clear-cut typology of the emerging cultural compromises. The following preliminary types rest as much on thought experiments as on the analysis of the cases. It, however, seems certain that one cannot expect to arrive at an extremely asymmetric dual scheme, on the one side of which we would see a few dedicated NIE specialists, while on the other, a vast number of economists of neutral or even hostile persuasions. I hope the following metaphoric designations will contribute to constructing a more sophisticated typology featuring quite a few mixed cases (the list displays no ranking order):

Refuge seekers: They “escape into” NIE from textbook Marxism, moderate reformism, and Comparative Economic Systems as half-converts (“we’ve always been institutionalists *in a sense*” as an interviewee put it); resist the neoclassical theory by accusing it of formalism, excessive trust in rational choice, and of legitimizing neoliberal policies (shock therapy being the main culprit); are convinced that the mainstream invaded the region not in its “high culture” version but as a mass commodity on the level of third-rate American universities; are

not familiar with its mathematical methods; interpret and distort rather than develop institutionalist thought by original research; use NIE in its diluted (quasi-liberal) form as a cover discourse to prove innovative spirit and survive in the academia; and as a group have become rather small by now.

Intransigent verbalists: Arriving from the camp of radical reformers (self-management theorists), they improve the research program of speculative institutionalism; borrow some of the core concepts of NIE (or the shells of these concepts) for the sake of a more precise description and explanation; have reservations about the neoclassical paradigm; may understand the mathematical gist of its models but do not engage in building them; their choice is to be explained by intellectual inertia and taste rather than a principled hostility toward NIE; still constitute the majority of the institutionalist research community in Eastern Europe; while the refuge seekers simulate adjustment, the verbalists may resist adaptation openly.

ORDO rearguard: A tiny blend of ex-reformers, Christian Socialists, and Hayekians; this group consists of (a) former reform economists who continue to trust in the pragmatic concept of *Soziale Marktwirtschaft* but resist ORDO's libertarian interpretation; (b) scholars who subscribe to the Christian-Socialist variety of the school; (c) evolutionary economists who embark upon a Hayekian extension of ORDO; with the exception of the latter, they neither overlap with NIE, nor acknowledge its methodological virtues.

Indifferent mainstreamers: A large group of neoclassical economists, emerging as a research community in the 1990s, overwhelmingly young and middle-aged experts (with their mentors coming from the "mathematics of planning"), who are immersed in (teaching) their own discipline; are happy to swim in the mainstream; watch NIE as a "little brother" with some condescension or disinterest/ignorance, not to mention the suspicion of logical impurity due to the closeness of the new institutionalist research programs to the real world and to other—shaky—institutionalist traditions; they are not institutionalist thinkers at the moment but may become such in the future.

Pragmatists (practical institutionalists): They are also neoclassical experts, ready to experiment with NIE concepts without scruples; their number is growing in government and business organizations (in particular, in the analytical departments of these); applying existing

models is their main contribution but some of the experiments may well result in scientific discoveries later.

Neophytes: A name given both by old institutionalists and neoclassical theorists to a small group of dedicated followers of new institutional economics; the neophytes do not rebel against the “imperialism of the mainstream” but would feel uneasy if they had to work with models of very high abstraction; the task of establishing and protecting the local identity of the NIE school may take away energy from the renewal of the subdiscipline in scientific terms.

Transdisciplinary supporters/challengers: As institutionalist research is no privilege of the economists, and as the post-communist transformation inspires political scientists, economic sociologists, economic historians (development theorists), as well as experts of law and economics and behavioral sciences to take part in the discussion on privatization, liberalization, and so on, several NIE concepts such as contracts, networks, hierarchies, or social capital have also appeared on the scene of interdisciplinary research. As regards methodology, these “outsiders” tend to prefer verbal to formal analysis.

Potential synthesizers: This is a small group of middle-aged economists who, prior to 1989, missed logical precision and empirical depth in the research programs of the reformers, and found many of their institutionalist concepts parochial, speculative, and politically ambiguous. In learning the neoclassical paradigm in their thirties, they did not cease to be interested in the institutional aspects of the post-communist transformation, and did not lose their ability to make verbal analysis in a multidisciplinary context either. Their neoclassical-style research projects are not devoid of NIE concepts but whether or not these concepts will find a privileged place in their scientific work is yet to be seen. The outcome may be contingent on their alliance with the “indifferent mainstreamers” and the “pragmatists.”

Western “free riders”: They are not Eastern Europeans by birth or employment but an integral part of the East–West encounters; these institutionalists are doing what the local economists were supposed to do in the prevailing Western imagery: Combining Western theories with Eastern European experience; The metaphor is perhaps too provocative; I think of those neoclassical or new institutional scholars in the West who fill the market niche emerging as a result of the imperfections of the work of the local NIE specialists. Rather often, the division of labor is traditional: To put it simply, the Westerners bring theo-

retical skills and bargaining power in the academic market while their Eastern European colleagues deliver data, local knowledge, and “exoticism” needed to justify the research project: Is this free riding or an equal exchange of cultural goods?

* * *

The usual caveat applies: if filled up with names, the above typology would become more nuanced, yielding a few additional types, including mixed ones. This would be all the more so if we applied any of the “muddling-through,” “improvisation,” or “bricolage” hypotheses, widespread in cultural theory, to the reception of new institutional economics in the region. Also, as alluded on the introductory pages of this paper, one can be persuaded to abandon any attempt at classification, reflecting a pessimistic view of the current state of economic sciences in Eastern Europe. Accordingly, the economic profession is confronted with a situation, in which practically any theory can melt into another without special difficulty.

Has that become the new basic instinct of the economists in the region?

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Epilogue

Defining the indefinable: East–West Cultural Encounters

János Mátyás Kovács and Violetta Zentai

Czechs have a German approach, which is: Tell me where to go and how, and I will go there. However, what is expected is that one will begin to search for solutions.

—An Italian bank manager

An Italian manager means chaos... mafia... a monstrous mess. Strategy and vision are missing. Then there is a fuck-up.

—A Czech bank employee

It was not only the *dramatis personae* of our case studies but also we, the researchers, who went through a number of surprising cultural encounters when bridging the gaps between our original expectations and the final outcomes of the project.¹ The chapters of this volume speak for themselves. Now it is the editors' turn to try their abilities of introspection.

In sum, DIOSCURI put forward four main assumptions:

- (1) East–West hybridization instead of presuming Western-led colonization (or Eastern self-colonization) as a typical outcome of cultural encounters.
- (2) Similarity between the individual countries/subregions of Eastern Europe in terms of post-communist cultural change in the economy instead of postulating a civilizational divide between East-Central and South-Eastern Europe.
- (3) Importance of the composite nature of the protagonists of post-communist capitalism, and of the proto-capitalist potential of *Homo Sovieticus* instead of defining the concept of the “Soviet type of man” in the light of a totalitarian theory of communism.

¹ This transpires from the comparison of what comes below with some of the earlier publications of the editors. See, for example, Kovács (2002, 2006a, 2006b, 2007); Zentai and Szabó (2011); Zentai and Krizsán (2005).

- (4) Existence of Eastern cultural assets instead of portraying Eastern Europe exclusively as a region of liabilities for the West.

Unexploited Possibilities

In suggesting these hypotheses, our research group decided to miss a series of spectacular chances for cultural analysis.

Core cultures? We resisted the temptation to construct even a tentative typology to identify a set of “core economic cultures” of Eastern Europe, however impressive such a typology might be. For the reader of the case studies in this volume, this should not come as a surprise. He/she would hardly feel encouraged by the enumeration of, say, ten essential cultural traits prevailing in the economies of the region. Hopefully, he/she would formulate ten ambiguities instead. True, the global or European-wide surveys of values, attitudes, norms, and so on that were mentioned in the *Prologue* offered us a plethora of such traits to test in the case studies. However, these surveys tend to summarize popular perceptions/opinions that, as a rule, did not match our fieldwork experience based on observed practices rather than mere perceptions.

Let us take an example from a selection of widely cited “Eastern features” of *organizational culture* including components such as paternalism, organized irresponsibility, improvisation, non-transparency, nepotism/clientelism, overregulation, short-termism, and so on. How could we come up with a catalogue like this when in the field we have found its items in pure form far too rarely. Instead, the case study authors were confronted with a turbulent world of transforming, evolving, mixing cultures—a Janus-faced universe. The same applies to *business culture*. Free riding, reckless competition, corruption, informality, rule-bending, contract avoidance, overpoliticization, that is, properties that occur in most descriptions of “Eastern business ethics,” were not witnessed as stable and unmistakable attributes in the majority of our cases. Likewise, a weak sense of quality, overcommitment, deadline phobia, mixing work and private life, scapegoating, and so on appear in most analyses of *work culture* under post-communism, yet we saw quite a few diligent workers, responsible public servants, well-organized entrepreneurs, and conscientious scholars in the course of our research program.

Convergence? Second, the above—predominantly negative—features are rooted in the traditional concept of *Homo Sovieticus* and

reflect relative judgment. They are commonly interpreted in terms of a comparison with a fixed ideal-typical model of Western (capitalist) economic cultures. One would have great difficulties in harmonizing these cultural traits with the most recent experience of both nascent capitalism in Eastern Europe and changing economic cultures in the West. In looking for a way out from this trap, DIOSCURI refused to take another spectacular approach, namely, the one based on presuming convergence between the “Westernization of the East” and the “Easternization of the West.” Rather than identifying Grand Trends like this, we observed that most of the allegedly essential features of Eastern economic cultures (those ranging from theft, laziness, and alcoholism, through negative thinking, passivism, and a beat-the-system mentality, all the way through collectivism and egalitarianism) have lost much of their relevance by now. At the same time, self-exploitation, flexibility, informality, preference for loose organizations, that is, characteristic traits that had been produced by communism by default, were reinforced after 1989. They contribute to a new capitalist culture in Eastern Europe that, incidentally, may remind the observer of some facets of recent cultural change in Western economies.² However, we do not think that this kind of similarity would require the use of lofty phrases such as Westernization or Easternization.

To take the example of new entrepreneurship in Eastern Europe, the authors of this volume did not meet many helpless, dependent, unprofessional business agents. Nor could they discover a whole army of perfect Weberian *Unternehmer* who would have replaced these agents. No doubt, there is *some* convergence between the East and the West in this field, too, but the imaginary meeting point of the two cultures seems to be far from the Weberian ideal type. In its stead, less ascetic, more risk-taking, and informal as well as socially less responsible actors are emerging on both sides of the former Iron Curtain, though nothing guarantees that their “Eastern species” would actually match the Western ones.³ Be as it may, even a small degree of convergence may bring some relief to the researchers: one could finally avoid walking the minefield of age-old stereotypes based on simple dichotomies

² Cf.: Castells (1996–1998); Giddens (2000); Reich (2007); Bauman (2000); Beck (1992); Sennett (2006); Comaroff and Comaroff (2001).

³ Actually, both species are characterized by their own populists adversaries with terms such as “predatory,” “hedonistic,” “Wild-West/East,” and so on.

of Western and Eastern economic cultures (cf. organized/disorganized, frugal/hedonistic, individualist/collectivist, and so on).

East–West difference? Third, DIOSCURI also resisted the temptation of building, with the help of the above dichotomies, a stunning typology of East–West difference of economic cultures as they live together in Eastern Europe today. In studies of cultural difference, the reader is informed about the status quo, while he/she can learn little about how the cultural gaps come into being and are, or are not, bridged in the real world (Adam et al. 2005; Sztompka 2000). The difference is simply assumed to be there; it has no internal dynamic with all its conflicts and compromises. Our research group chose a different strategy that, again, did not promise spectacular results. Instead of stating upfront that, for instance, “Western transparency” and “Eastern obscurity” do not fit together in a joint venture, we challenged both concepts (for example, what if it is the Western businessman who prefers secrecy?) and paid attention to the emerging combinations of these hypothetical cultural traits.

Culture as suffix? To be sure, even if one does not aim at discovering “core cultures” in Eastern Europe or “underlying cultural differences between the East and the West,” he/she may gain valuable insights into the region’s economic cultures. But this fourth opportunity for a spectacular inquiry should remain unexploited, too. One needs to abandon using the word “culture” almost as a suffix, and theorizing about poverty culture, dependency culture, war culture, informality culture *ad nauseam* that is, to stop substituting high-sounding phrases for detailed empirical verification. Arguably, the inflation of the word “culture” is an uncomfortable consequence of the “culture matters” thesis. DIOSCURI did not want to fly so high; it departed from the plain proposition (fact?) that since 1989 nearly uniform legal-organizational changes in the economies of the region have often led to a rather diffuse set of institutions, depending on the cultural context of those changes. To put it differently, Western-style organizations have not evolved automatically into Western-style institutions in our half of Europe. Therefore, rather than insisting on (and often getting stuck with) popular perceptions, we turned our gaze to the emergence of a great variety of economic institutions (ranging from transnational banks through local EU agencies to university departments) and to the ways in which these institutions carry cultures from the West to the East.

Gray fields? Fifth, our research group did its best *not* to follow a few fashionable avenues of research into economic cultures. Instead of launching just another project on new business elites, corruption, and trust or ethnic discrimination in the economies of Eastern Europe, we selected three research fields: entrepreneurship, state governance, and economic knowledge, which seem rather gray and lifeless at first glance. Nevertheless, they include two vast bundles of economic institutions: the market and the state, that relate to many areas of culture (ranging from business habits through administrative norms to scholarly behavior), and—in contrast to most research programs—do not ignore a cultural terrain of growing importance, knowledge production, in the economy. From among the three fields, entrepreneurship has been discussed by the greatest amount of literature thus far. State governance is a relatively new research area with a limited coverage, whereas economic knowledge has not quite yet attracted the attention of scholars.

But has leaving so many research opportunities deliberately unexploited been justified by the success of those we actually decided to exploit? Let us return to the working hypotheses of the project. In a nutshell, assumptions 1 and 2 have received strong support from the case studies, whereas assumptions 3 and 4 require additional evidence. While hybridization proved to be an extremely frequent phenomenon, and the countries under scrutiny showed much similarity to each other in cultural exchange with the West, the twin hypotheses concerning the capitalist virtues of *Homo Sovieticus* and the “Eastern assets” of economic culture need further reflection. In other words, as an essentially qualitative inquiry, DIOSCURI laid, we believe, solid foundations for quantitative (realistically: less qualitative) surveys of hybridization in Eastern Europe as a whole, whereas the assumptions with regard to cultural assets and their origins under communism do not lend themselves to quantification yet. The existence of such assets must be corroborated by meticulous historical research, but even that would not help answer the question whether or not the West will accept those as a stock of cultural capital from which it can profit.

Let us now examine the hypotheses one after another.

Hybridization

It is always tempting to understand cultural encounters between East and West in a simple framework of cultural imperialism. The fieldwork, however, confirmed our original expectations that one rarely sees fierce conflicts (“clashes of civilizations”) between the foreign and local economic actors in the region, even if the initial cultural distance between them is rather large. Similarly, the outcomes of the encounters do not boil down to major asymmetries in any direction (for example, colonial invasion from the West or stubborn resistance by the East). In most cases, a pragmatic combination or “negotiation” with a limited synergy of cultures result from the exchange. Yet, even if one witnesses voluntary takeover rather than imposition, the adaptation processes are lengthy and messy, offering little chance for impressive generalizations like in the field of consumer culture. Hence, right or wrong, another spectacular approach had to be ignored by DIOSCURI.

The concept of hybrid outcomes of cultural encounters is, of course, as old as the notion of creolization (or syncretization and pidginization).⁴ Witnessing a great diversity of cultural blends (“patchworks”, “mélanges,” and so on) could be predicted in the whirlpool of post-communist transformation as well. Although initially our research group had been interested in the ratio of the imported and domestic ingredients of the new economic cultures, it became clear during the field work that the concept of hybridization deserves further thought. If nuanced it promises a whole series of helpful analytic categories. For instance, provisional cultural adjustment at the personal level versus long-term institutional adaptation, real and simulated hybridity, or eclectic combination of cultures versus organic cultural integration seemed to be fruitful distinctions.

Furthermore, we noticed that the *locus of encounter* also matters: balanced hybrid solutions are more frequent in firms, especially in smaller ones, and in certain segments of economic science, education, and advocacy. However, in larger foreign-owned companies, including transnationals, those cultural blends prevail that are closer to unilateral takeover/emulation. Here, imposition and imprinting are rather com-

⁴ Cf.: Appadurai (1996); Bhabha (1994); Clifford (1988); Featherstone et al. (1995); Friedman (1994); Hannerz (1992), (1996); Pieterse (2004). For a new analysis of the concepts, see: Knörr (2010).

mon. In large domestic firms acquisition, inducement, and incorporation may overshadow these practices, whereas smaller enterprises also follow the strategy of bypassing. With civil servants, cultural adjustment is often conflict-ridden, also showing “Eastern defeat” or withdrawal. Obviously, here the local actors cannot offer cultural commodities acceptable for the foreigners: The Easterners either resist Western cultures or subscribe to them. Or they simply pretend subscription while trusting in a “they come, instruct, and leave” sequence, as one of our interviewees put it, which leads to temporary/simulated adaptation. True, the foreigners leave a legal-organizational legacy behind, but it may be offset to a large degree by the local culture of state governance.

In other words, entrepreneurship proved to be a terrain of relatively deep, mutually accepted, “organic” hybridization, while state governance displayed temporary, *ad-hoc*, and simulated adjustment in quite a few cases. In the field of economic knowledge we found eclectic combinations rather than well-reflected “negotiated” hybridization. Although we did not set out to search for differences between the individual research fields, it became clear for us as the project progressed that entrepreneurship and economic knowledge react to cultural challenges faster and more ingeniously than public administration. The latter shows more resilience and explicit resistance, if not barriers, to spill-over effects than the two other fields. Here, the encounters often result in hidden and overt resistance to accommodation on both sides. Resistance is driven by strong political convictions, lobby interests, or pure inertia. Similar to the foreign aid industry, our EU accession stories cast light on how new institutions can be inserted into long-frozen governance structures, that is, into either still fully centralized or reluctantly decentralized administration apparatuses saturated with corruption and clientelism. Nevertheless, as evidenced by the SAPARD cases, civil servants in some countries (Slovenia, the Czech Republic) took a pragmatic approach and adjusted to the new norms rapidly. Countries like Hungary and Poland were not so successful in the short run but could catch up in the post-accession phase.

As test cases to the EU, technical assistance programs delivered by other international donor agencies in the region uncover that, on the whole, the relationship between local managers and experts and their Western counterparts has evolved from a dependence on outside expertise towards a more cooperative partnership. The power structure, how-

ever, tends to remain asymmetric. Asymmetry may be of a paternalistic nature, whereby the foreign agency takes the lead, imposing the rules of the game and allocating the roles and tasks. The local partners accept this as legitimate and willingly comply with this strategy. In the empowerment mode of asymmetry, the agency takes a participatory approach and invites the locals to share the ownership of the project. Still, the initiative and much of the power reside with the West that has generously decided to redistribute competence. The response of the indigenous actors varies: they may grasp the opportunity, resist out of distrust or lack of experience and capacity, or simply withdraw into passive dependence. Finally, in a rare emancipatory mode, the superiority of the West is experienced by the local actors as domination and fiercely challenged.

In regard to our third field of research, economic knowledge, since the 1960s neither Eastern exceptionalism nor an uncritical emulation of the West have ever been all-exclusive options in Eastern European economic thought and advocacy. True, the cultural compromises between them have changed considerably. Concerning post-1989 intellectual and institutional encounters, both the older and younger generations of economists continued to cope with Western ideas in a selective manner and to combine imported knowledge with local knowledge. However, the former insisted on generating local knowledge with great determination while the latter showed a strong disposition for the incoming mainstream economics. Beyond this gap, no heated and lasting conflicts occurred between the “Western” and “Eastern” worlds of ideas. Today, instead of culture wars one sees an ongoing unilateral adjustment (by the East)—in Hirschman’s terms, weak voice and rare exit. Although peace is not unconditional and eternal, utopian expectations about the originality of Eastern European economics slowly disappear, as do frustrations with the growing lack of hybrid concepts and theories.

It occurred that the *length of the transnational encounters* is also an important variable. Lasting (personal) coexistence of foreign and indigenous actors (for example, in the framework of a privatization deal with a foreign investor) is a strong incentive for mutual adjustment, while brief encounters with short-term stimuli for success (for example, EU development programs) may lead to pure simulation on both sides. Of course, coexistence and even cohabitation do not matter in themselves. They have to be equipped with powerful motives, mate-

rial and/or spiritual—a distinctive feature of business as compared to state administration. To be sure, the physical presence of the foreigner is not always a necessary condition: think of *ex-ante* adaptation in economic sciences through self-education. Obviously, as evidenced by the above examples, the relative size/power/ownership of the partners are the major determinants of adjustment in cultural exchange. Nonetheless, hybridization may be a conscious strategy initiated even by dominant foreign actors to minimize cultural conflicts. It can also be limited to certain “islands” in the economy (for example, certain banks or universities) or segmented, incorporating only the “internal West” of the given country (for example, certain professional groups).

Finally, hybridization depends on the given area of state administration, industry, or science, the business success/failure of a given field, the age of the cultural partners, their position in the institutional hierarchy, and so on. For example, a well-established domestic company with quite a bit of local knowledge, applying traditional technologies in an industry of low capital intensity and secure markets has good chances for retaining its business habits, organizational norms, or work ethics even if it cooperates with (has been taken over by) a powerful foreign firm. To make such an assertion, however, requires research case by case. At first glance, one would presume that foreign investment projects in retail trade, tourism, food and beverages, and business services would exhibit a particular dynamic throughout the region, where local knowledge of business norms and consumption habits is the key factor. Yet, these sectors may also provide the clearest examples of Westernization, for instance, by importing a new ethos and imagination for products and services (as demonstrated by the case of the Hungarian wine producers).

All in all, the case studies equipped us with a number of comparative variables that could serve as building blocks of a tentative typology of hybrid economic cultures in post-communist Eastern Europe. Should countries and/or subregions also feature among these variables?

Similarities

Hybridization means a lack of hegemony or colonization and certainly communicates their relative weakness. The concept of “Balkanization” usually implies that South-Eastern post-communist societies

resist incoming cultures from the West more fiercely than their northern neighbors; therefore, hybrid solutions are less frequent or the emerging blends are closer to the Eastern points of departure in the cultural encounters. As mentioned in the *Prologue*, our research group avoided making a sharp distinction between the “Visegrad” and the “Balkan” subregions/countries of Eastern Europe at the outset of the project,⁵ and we were happy not to feel inspired to revise that reluctance by its end. Anyway, the lack of clear-cut regional and country types was counterbalanced by an unexpected diversity of hybrid types across the three research fields in both subregions.

It was paramount in all research fields that one cannot speak of a civilizational slope between these two parts of the region in terms of actual cultural exchange with the West. The countries of South-Eastern Europe do not exhibit, as a rule, more bumpy roads of cultural adjustment than their Central European neighbors. If the past two decades are taken as a whole, the case studies do not reveal major differences in the overall structure and quality of adaptation. Undoubtedly, the East–West encounters varied in frequency, pace, scope, and depth (for example, the ex-Yugoslav societies, many of which pioneered in self-Westernization under communism, were isolated in the 1990s, or the phases of EU accession created new, though temporary, divisions between the “included” and the “excluded”), but the first decade of the new millennium managed to even out much of the divergence in both quantitative and qualitative terms.⁶ We did not ask whether it was hardship, pride, the desire of catching up, or just the advantage of the latecomer that made Bulgaria, Romania, and Serbia no less diligent and capable “builders of capitalism” than the Visegrad countries or Slovenia. We simply resisted the temptation to explain each and every difference in the “construction technology” by means of cultural(ist) arguments.

In war-ridden Serbia, for instance, one could not expect a noisy cel-

⁵ We also avoided dividing the countries into two similar groups: the new and the even newer EU member states.

⁶ It was only the Slovene research team that insisted on the exceptional status of their own country, drawing a straight line of development from the richest republic of Yugoslavia to the most advanced new EU member state in the post-communist world, which shows more resemblance to Austria than to its Eastern neighbors.

eburation of Western values of entrepreneurship, yet, as the *Hauzmajstor* case in the volume shows, the way in which cultures mix in this company has little to do with nationalism or state capitalism, not to speak of Orthodoxy, that is, eminent explanatory variables in the standard discourse of Balkanization. Similarly, it would be misleading to call a Romanian or Bulgarian affiliate of the same transnational bank “more Eastern” than its Polish or Czech counterpart, or to consider economics in Croatia “less Western” than in Hungary.

Having said that, we do not want to ignore the cultural nuances of the Eastern European economies, especially as far as popular perceptions are concerned. For example, Czech businesspeople and state officials “in general” are considered less corrupt than, say, their Romanian colleagues. Yet, we did not strive to measure the difference, even if we knew that metaphors such as Balkanization can become self-fulfilling prophecies, for it is hard for both Eastern and Western partners to release themselves from their mutual spell in real economic transactions. An exciting by-product of our fieldwork, it supplied plenty of information on the opposing stereotypes. According to our Eastern European respondents, many of the Western actors they encounter are socially insensitive, rigidly formalistic, overspecialized, stressed, unimaginative, and so on. Quite a few South-Eastern European entrepreneurs and managers interviewed went even further by using a kind of “thermometric language.” The word “warmness” occurred fairly often when talking about the relationship with their business partners from Italy, Greece, or Spain, representing, as a rule, small and medium-size firms, frequently in family ownership. They said that if they could choose, they would opt for a sort of “Mediterranean economic culture,” as they called it, as opposed to a cold “Nordic” one (meaning German in the first place), which they described as megalomaniac, rigid, and impersonal. The Americans, although they were not depicted as champions of the Mediterranean mentality, also received a couple of compliments for their easy-going, non-hierarchical, flexible, and informal business practices.

Ironically, a case study written about an Italian bank that took over a Czech one points in the same direction. There, the indigenous employees regarded the behavior of their foreign partners as alien to their own “German-like” traditions. In any event, attitudes/perceptions like these may differ between the “North” and the “South” of the region, and they probably color certain phases of the cultural encounters but,

as evidenced by most of our case studies, do not change the composition of their final outcomes fundamentally. At the same time, they show how mistaken the conventional East–West discourse can be. If a Bulgarian firm finds a “warm” Greek partner in a joint venture, and no major cultural adjustment is needed, will this firm become more Westernized? And conversely, provided that the Czech employees get the upper hand in cultural exchange in the Italian bank, will the latter then become more Easternized? Finally, does the Bulgarian (Balkan) firm resist Western cultures more than the Czech (Visegrad) bank? Or to take the example of state governance, our fieldwork revealed that the implantation of EU norms and procedures, and thus the establishment of new administrative cultures, were not predetermined by the prevailing political regimes of the region. Countries advancing relatively fast with Western-inspired democratic reforms performed rather weakly in responding to the accession requirements of state governance whereas relatively slow countries proved to be diligent students in this field. Sometimes, the new rules are eagerly accepted by those who have no choice but to become “Europeanized.”

Eastern Assets (Capitalist Virtues in Communism)

Here, we assumed that one cannot capture the initial status of Eastern European economic cultures by relying on the old, totalitarian-style concept of *Homo Sovieticus*. It may sound paradoxical but it is a rather old discovery: communism was not only a modernizer but also a school of capitalism, even if in a distorted manner. Under Soviet rule, industrialization, urbanization, mass education, public health, and so on were well-known achievements of “quantitative modernization” (or simply, detraditionalization). However, in the course of this, also calculative behavior, risk-taking, competitive attitudes, and so on were obligatory subjects to learn, by default, not by design, to oil the machinery of planned economy. In many segments of that economy, communism conserved/reproduced a sort of capitalist ethos (rooted in trust rather than formal rules, personal rather than institutional transactions, small rather than large organizations, human rather than physical capital), part of which eroded in the West during much of the twentieth century. According to our last working hypothesis, this *Gründerzeit* ethos might perhaps grant a comparative advantage to the Eastern Europeans in the global marketplace today. As a consequence, the

region could cease to be considered a pure liability for the West, a region that needs to be supported and taught the “right” economic behavior. On the contrary, its economic cultures could be an asset and competitive advantage as Eastern Europe begins to rejuvenate economic cultures beyond its borders.

The case studies offer plenty of information about the alleged comparative advantages. Indeed, our Eastern European respondents put forward a great many arguments to defend the thesis of local exceptionalism (even superiority) *vis à vis* the West.⁷ In a Schumpeterian tone, they talk about a higher level of flexibility and assertiveness, a greater propensity for innovation, and so on, and also refer to (neo)-liberal macro-experiments (for example, flat tax and the privatization of welfare regimes) that presuppose the existence of “more capitalist” cultures than the ones normally prevailing in the West, at least in Europe. An image of a “little America” emerges from their sentences.

Probably, we, the authors of this volume were nearly as biased as our local interview partners when emphasizing the maturity of economic cultures in the region to join the capitalist world at the turn of the millennium. The “we are not inferior” feeling is more than a proud response to Orientalist prejudices: it reflects the optimism of the first years of the twenty-first century prior to the global crisis. This period witnessed an EU-generated and EU-compatible acceleration of legal-organizational change in the economies of East-Central Europe, and a rapid catching-up by those in South-Eastern Europe, that is, a sort of ongoing homogenization of Eastern Europe in the framework of European capitalism. A large part of the new economic organizations did not remain empty shells but evolved into veritable institutions, and the regimes of capitalism began to flourish in both state regulation and the market. Entrepreneurship prospered in the form of local start-up ventures and foreign investment. The capitalist transformation of the region’s economies seemed irresistible, in particular, as it gained recog-

⁷ DIOSCURI was not planned to classify the combination of legacies but the field work warned us of the fallacy of indulging in a “linear” interpretation of history. Those who were eager to derive the current patterns of development of a “Visegrad” or a “Balkan” country directly from the fact whether its pre-communist and communist regimes as well as its post-communist transformation moves were less or more liberal would have a hard time. The causal relationships between the three kinds of legacy are much more complex, not to mention the generalization of these relationships to the whole of the alleged subregions.

nition through the repeated rounds of EU accession. One could optimistically predict that transnational cultural differences can be solved, sometimes rather quickly, through gradual institutional change and economic development. According to a great majority of our interviewees, “there is no curse on Eastern Europe”: the negative truisms referring to moral decay, social anomy, and so on are grave exaggerations. Similarly, what is widely promulgated by the media and accepted even by non-populist politicians in the West as to deep corruption, an extremely low level of trust, or scarcity of social capital under post-communism is not an entirely unrealistic cultural stereotype, but it can become obsolete rather rapidly if institutional arrangements and economic conditions change for the better.⁸

This optimistic mood did not prompt our interview partners to go a step further and reflect on the alternative scenarios of “Americanization” and “Europeanization” for the region’s economic cultures—a question we had also hoped to receive profound answers to. As a matter of fact, what the Western respondents were stressing as precious cultural assets of their domestic partners related rather to the American than the European alternative. On the one hand, they praised the instinctive entrepreneurial skills of the local actors, their propensity for “creative destruction,” competitive attitudes, fresh minds, ambition and desire to learn; on the other hand, they were not too anxious about the fact that their partners did not show much interest in social equality and inclusion, industrial democracy, legality, and the like, that is, in some of the ideal components of the European welfare states.⁹ One of our foreign interviewees called the region an “oasis of flexibility” where the West can make management and business experiments. Nevertheless, however telling and practice-based the opinions of the Westerners

⁸ Those authors who revisited their research fields during the global crisis report a switch from optimism to skepticism in both sides of the cultural encounters.

⁹ Appreciating Eastern assets in economic culture may help the foreign actors avoid self-criticism. In the European scholarly and policy debates one hardly finds critical appraisals of the ways in which Westerners adjust “downward” to local cultures. It is not unknown, however, that “Easternized Westerners” take easy advantage of clientelism, corruption, and undue privileges in many fields of the nascent capitalist regimes, leaving behind many of their Western norms and habits.

were, they did not provide enough ammunition to decide with sufficient certitude whether the liability or the asset thesis is to be accepted.

At the same time, DIOSCURI discovered something it did not really want to examine: once again, the research fields displayed conspicuous differences. The fact that the case studies revealed a rather strong proto-capitalist legacy in entrepreneurship and a weak one in state governance was not a colossal surprise. However, the record of the “knowledge producers” in economic science remained below our expectations. To put it simply, in many countries of the region economists emerged from communism with the necessary “amount” of scientific culture to appropriate Western economic theories, at least on a medium level, but did not carry over from the *ancien régime* either original discoveries or the ability to make any soon. In this respect, without intending to offer gold, silver, and bronze medals, one might say that the economists were lagging behind the entrepreneurs almost as much as the state officials behind the economists.

Coping with Cultural Encounters

When our research group began to study how economic actors in Eastern Europe cope with transnational cultural encounters, we did not foresee the extent to which these encounters might diverge from a simplistic ideal type. That type depicts two actors who meet only once, and the encounter means that one of them hands over his/her “cultural commodity” to the other. It was, of course, not a big deal to predict that an “East meets West”-style dual scheme would be superficial and that encounters also usually imply a (repeated) exchange of cultures. The *Prologue* suggests a few preliminary thoughts about “irregularities” reminding the observer of the complexity of dynamic multiple-person games. The quotation marks express the fact that the bulk of our case studies report on nothing else but irregular encounters with the sole regularity of their hybrid outcomes. In discussing hybridization above, we named a whole bunch of factors (ranging from the length of the encounter to the incentives for simulation) that affect cultural compromise between the parties. In conclusion, let us sum up our research experience with regard to the principal concept of DIOSCURI, that is, transnational cultural encounters, in a somewhat more systematic fashion.

As regards the *locus of encounters*, we focused on Eastern Europe but it turned out that important moments/phases of the cultural exchange

take place outside the region. This is most obvious in the field of economic science where an international workshop or research abroad can determine cultural adjustment for the whole life of a scholar, not to mention the fact that in this field the place of the encounter may be totally indifferent (cf. reading a book, communicating via the internet). In fact, the two other research fields are not entirely different: a training course at the headquarters of a transnational company or a round of negotiations with a department of the European Commission in Brussels can largely affect the result of a given cultural transaction. Moreover, we experienced that the foreign party is less influential if he/she has to face the “home advantage” of the domestic one while, for the same reason, the latter is more exposed to cultural effects abroad.

As for the *time of encounters*, the actual meeting of the partners is usually preceded by a preliminary accumulation of information about each other, in the course of which mutual expectations crystallize. Similarly, the encounter does not end with their last meeting: drawing the lessons is a crucial task affecting later rounds of cultural exchange with the same or different partners. The adjustment process is seldom continuous. It may be interrupted for a long time, include repeated trials and errors, or can slow down and speed up without following any regular cycle. In our project, entrepreneurship showed relatively fast and uninterrupted exchanges of cultures, while in the field of state governance adaptation by the local partners was rather sporadic and obstructed. Even in smaller institutions the encounter normally includes a whole series of encounters (between the same or different persons) mixing synchronic and diachronic transactions. It may be that at a certain point in time the different key actors of the same party do not reach the same phase of cultural exchange: while one is still insisting on his/her initial position, the other has already agreed on a *modus vivendi* with the representative of the other party.¹⁰

As far as the *actors of encounters* are concerned, we already referred to a great variety of them: “real” and “Easternized” Westerners as well as “real” and “Westernized” Easterners, including expatriates, young and old, long-time and occasional partners, and so on. Several encounter stories reveal a tripartite cultural space, in which one foreign actor and two main local actors can be identified. One of the latter is thoroughly

¹⁰ We found such a “disorder” in a great variety of cases: banks, wine producers, development programs, university departments, and so on.

exposed to transnational ideas and practices while the other is only moderately so. They may be at a greater cultural distance from each other than one of them from the foreign partner. The case studies portray a large number of encounters, in which the actors are experienced in cultural mediation. Typically, it is the “localized foreigner” and the “internationalized local” who meet. Striving to attain a win-win situation, they do not want to overpower their partners, and offer them some kind of peaceful cohabitation. They bargain rather than fight, and avoid making an enemy out of the partner. We saw extremely powerful Western actors make significant concessions in terms of their corporate or administrative cultures in order to strike roots in the local environment. For instance, even a weak government can blackmail, mislead, or deceive an EU agency if the latter cannot afford to punish the country for legal or diplomatic reasons. Incentives matter but it would be foolish to think that they must only be of economic or political nature. As the example of banking demonstrates, borrowing cultures may originate in clearly professional aspirations, but in economic science it may also stem from ideological considerations.

Encounters may be virtual, the foreign partner appearing primarily in the mind of the domestic actor. This is often the case with scientific adjustment processes in which ideas are exchanged. With real (personal) encounters, however, hierarchy and expertise seem to be crucial variables. Our fieldwork testifies that cultural exchange is smoother between parties working on the upper-middle level of the organizations concerned, where authority counts less than on the top and professional knowledge more than on the lower levels. All things considered, one of the greatest surprises for our research group was to see the impact of cultural geography upon the specification of the actors. As mentioned above, the local actors tended to make distinctions between their near and distant Western partners, indicating who are their “advanced” cultural relatives/neighbors (the Slovenes chose the Austrians, the Romanians the Italians, the Czechs the Germans, and so on). At the same time, the cultural slope does not always run toward the East: an East–West encounter may exhibit a greater cultural distance between the foreign and the local partner in different parts of a country than between two countries. For instance, a German firm probably faces less cultural resistance in Western Romania than in Eastern Hungary.

The concept of the West is plural in many other senses, too. For instance, the cultural packages it sends to the region include both neoliberal values and the principles of political correctness, just to mention two extremes.¹¹ Although such kinds of ambiguity often manifest themselves in the fields of entrepreneurship and state governance, it is perhaps the evolution of economic thought in Eastern Europe during the past decades that offers the most lucid examples for double standards. In both science and advocacy the local economists face conflicting messages coming not only from America and Europe, respectively, but also from Europe proper. The same EU bureaucracy represents interventionist policies and the principle of social responsibility on the one hand, and free-market values on the other. Hence, the Eastern European experts may easily succumb to hybridity, if not to mere eclecticism. Confronted with this confusing source of inspiration, they feel free to make pragmatic or opportunistic choices by mixing, or for that matter, by opting for what is more akin to the local idiosyncrasy. Whatever their preference is, they do not have to bother with innovation: no special efforts are required to find similarly mixed cultures in the Western half of the continent.

Finally, as to the *sequence of encounters*, the DIOSCURI hypotheses suggested to consider a number of phases leading from the initial expectations up to the final outcomes but did not reckon with a straight progression through each of them. We were aware of the fact that certain phases can be skipped, the exchange can derail or get stuck in a certain phase or return to an earlier phase. At the same time, the assumption of hybridization excluded one-phase encounters (at least in great numbers), in which the incoming cultures would immediately replace the indigenous ones without negotiation, or the latter's resistance would defeat the former right after their arrival. By the way, even in these cases the encounters may include introductory stages, in which expectations are formed and cultural gaps are identified by the partners, not to speak of the lessons to be drawn in the end. However cautious the hypotheses were, our cases presented an even more complicated picture of the actual give and take of cultures, showing a large array of strategies, sequences, and outcomes, and bordering on the indefinability of the concept of cultural encounter.

¹¹ This is what Peter Berger calls "Davos culture" as opposed to "faculty club culture."

As for the consecutive stages of encounters, our fieldwork identified both high and low, negative and positive expectations, the conflicts were both soft and hard, the partners passive and proactive, the coping strategies instinctive and conscious, and the conflict resolution spontaneous and institutionalized, and so on, not to speak of a great number of intermediary types. By and large, however, we witnessed rather peaceful adaptation procedures with low expectations (thus, also low frustration levels), soft conflicts as well as sophisticated coping strategies and resolution techniques. Sometimes, the actors jumped directly into the phase of coping with cultural differences without having clear expectations about the partner's behavior and collecting knowledge of those differences. As regards the phase of negotiations, these included a huge diversity of coping strategies, a considerable distance between verbal commitment and practical adaptation, a lengthy process of mutual adjustment, and just a few items of unambiguous compromise.

Stable agreements, even if they were not put on paper, were built on mutual consent supported by rational motives, while those outcomes of encounters that were based on force, misunderstanding, or simulation proved rather unstable. As mentioned above, simulation was less frequent in the field of entrepreneurship where constant communication and strong personal ties prevent the actors from misleading each other (or themselves). In this field, like with economic science, the encounter stories are normally long, providing ample opportunity for renegotiation and the revision of outcomes. What seemed to be a peace treaty may prove to be a truce in the near future. Also, as often entire cultural packages are exchanged, in an extreme case, total acceptance of a given cultural commodity can combine with total resistance to another—thereby revealing a new source of hybridity. No matter if the adjustment processes are synchronous or asynchronous, they can be linked together to craft refined bargaining strategies: for example, a domestic firm may accept part of the business culture of its Western partner with the proviso of non-interference by the latter with certain elements of local work culture.

After DIOSCURI

The program left our research group with an alternative: as a next step should we try to quantify or rather deepen our qualitative results? In striving to support the working hypotheses, we could have embarked

upon quantification but, apart from being intimidated by its tremendous costs, we did not really feel committed (and competent) enough to construe more precise typologies. Also, some of the qualitative DIOSCURI's conclusions were not reassuring enough for us in and of themselves. However firmly we wanted to anchor cultural analysis in actual cases, its institutional underpinnings proved less than systematic. Therefore, rather than plunging into quantitative comparisons, we decided to improve our qualitative results by revisiting a few research fields and refining the key concepts of DIOSCURI.¹² Simultaneously, some of us (including the two editors) moved toward comparative political economy and have embedded what we had learned about economic cultures in Eastern Europe in an inquiry on the regimes of nascent capitalism in the region.¹³ Now, while working on CAPITO,¹⁴ our new research endeavor, we stopped for a moment to publish this volume in the sincere hope that it would stand on its own feet.

The decision to study regimes, that is, the legal-organizational rather than cultural features of economic institutions was also prompted by the global crisis of 2008–2012 that marked rapid and spectacular changes in the former (cf. bailout programs, stricter state supervision, new taxes and budget rules, and so on) while leaving the researcher in uncertainty as to the future of the latter. Although cultures do not change overnight, and therefore it would be fantastic to have a chance for revisiting the DIOSCURI research fields in say, two decades from now, one might already make a few assumptions on the probable paths of cultural evolution because the crisis hit each of our fields with remarkable strength.

Currently, in all likelihood the most turbulent changes are occurring in economic sciences, at least on the rhetorical level, irradiating to the other two fields. In the cultural encounters with Western scholarship, Eastern European economists witness unexpected conflicts between their role models (Posner versus Lucas, Becker versus Krugman, Krugman versus Mankiw, and so on) whom they considered to belong, in the last analysis, to the same neoclassical camp. In addition,

¹² See, for example: Kovács (2010a); Kiossev and Kabakchieva (2009); Kochanowicz (2007).

¹³ See, for example: Kovács (2010); Aligicǎ and Evans (2009); Avramov and Pamuk (2006).

¹⁴ See [http:// www.capitoproject.net](http://www.capitoproject.net).

these conflicts concern crucial concepts of economics such as the rationality of market behavior, the scope of state regulation, or in general, the stability of capitalism, and reopen old chapters of economic science like Keynesian interventionism.¹⁵ This may have a much more profound impact on economic thought in the region than the simple fact that in the coming years it will be very difficult to return to a Hayekian-style libertarian approach to the market process. Remaining with our main example in this volume, institutional economics, we do not exclude a substantial reinforcement of “old” institutionalism, reviving regulatory ambitions in the government sphere, doubts about the merits of private ownership, and an emphasis on public interest, sound intervention, guided evolution, and the like.

In a similar vein, the overall incertitude caused by the crisis cannot but affect cultural evolution in the two other research fields, entrepreneurship and state governance. Cultural encounters in both fields are inhibited by a considerable growth of mutual mistrust: while the Easterners began to suspect the “decline of the West” (as so often in history) and to show interest in interventionist practices of the BRIC countries, their Western partners tend to fall back on prejudices with regard to the “perennial” anti-capitalist attitudes of Eastern European economic actors. A good example in the first research field is the shattering of international banks and rating agencies as cultural idols in the eyes of these actors. In their frustrated mood, poor regulation of financial markets is often mistaken for a lack of regulation, which may even result in a demand for some kind of renationalization. Also, due to a combination of low performance and a high degree of income polarization in banking and some other industries, a new wave of propounding egalitarian norms may be predicted. Conversely, in the second research field, it is the Western party in the encounter who complains about the imprudence of public finances, revealed by the international crisis in the post-communist countries. Unfortunately, that complaint is also leveled against the governments of all old EU member states in Southern Europe, thereby resonating with the above-mentioned “thermometric” approach detected in the discourse of our South-Eastern European respondents.

Nevertheless, it would be close to a tragicomedy if the East–West cultural divide in Europe ceased to exist in order just to be replaced by

¹⁵ See Kovács (2009).

a North-South cleavage. Be as it may, new cultural frictions are to be expected. As hinted above, cultural compromise, that is, a predominant feature of the encounters evidenced by our case studies, is contingent not only on common interests but also on common beliefs and trust. With volatile Western economic cultures after the crisis, self-confidence will seem to be a proof of arrogance in the eyes of the Eastern partners; and *vice versa*, any relapse into pre-capitalist and/or communist cultures in Eastern Europe (for example, protectionism, fiscal populism, *étatisme*, and so on) will support those Westerners who have always stressed the un-reparability of Eastern economic behavior. In their interpretation, one will hardly find reference to nuanced differences such as the one between the successful “crisis manager” Poland, on the one hand, that is not exposed to huge cultural pressures in the wake of the crisis, and Hungary, on the other hand, that has had a disastrous economic record during the past decade and witnesses a serious retreat of capitalist cultures today.

All things considered, one cannot predict, whether for example, a decision like the recent abolition of the private pension schemes (to remain with Hungary) would significantly alter the savings behavior of the population in the long run. Too many things are changing in the world economy simultaneously but not in the same direction. Consumption habits in housing, for instance, are doomed to change but who would dare to tell if an overbureaucratization of credit operations or more rational consumer choice will be the dominant cultural consequence of the recent shock? What degree of social responsibility will be regarded as a necessary component of fair business in banking? How high is the level of socially acceptable managerial bonuses? Or to cite a current example from Eastern Europe, ordinary people who are suffering the burden of the increasing monthly rates of their residential loans taken in foreign currency might hate the market and demand state intervention fiercely, but at the same time, learn foresight, the basics of currency regimes, and the ability to balance household budgets. As a result of the crisis, they may become much more conscious customers and, equally, supporters of much less free markets.

The editors do not want to conceal the fact that in publishing this volume they have an “ulterior motive” as well. In the current, crisis-ridden state of the East–West imagination, the idea of the “clash of civilizations,” a term one hoped to have forgotten, seems to materialize in various attempts at disintegration within the European Union.

Today, the “two-track Europe” blueprints are back on the planning boards of leading Western policymakers, and the East–West and North–South conflicts in the EU are being filled with militant culturalist/ ethnicist arguments borrowed from an old version of the East–West rhetoric (cf. the “lazy and treacherous Greeks” and the “stingy and arrogant Germans”). We would not mind if our book could contribute to a more peaceful discourse of cultural coexistence. Why not believe, perhaps a bit naively, that the warlike noises generated in the public arena by seriously considering the compartmentalization of the EU, the termination of its Eastward expansion, and the expulsion of low-performing countries can be moderated a little by presenting a fair number of cases of cultural compromise and cohabitation? Instead of invoking the infamous figures of the “Polish plumbers,” the “Albanian drug dealers,” and the “nationalist dictators of the East” on the one side and those of the “predatory multinationals,” the “foreign adventurers,” and the “Brussels imperialists” on the other, one might start asking prosaic questions again, questions we raised in our three research fields. How is a code of business conduct formulated in a transnational company operating in Bulgaria? What does a government official in Poland do if he/she is offered a bribe by a French investor? Or, to look in our own mirror, why are there so few economists among the anthropologists and why are so many economists indifferent to cultural studies in Hungary today?

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Ten European countries that were part of the Soviet empire in 1989 are today (and others like all of post-Yugoslavia are soon to become) member states of the European Union. They have traveled a historically unique path from state socialism to market capitalism. This rich set of subtle case studies in comparative economic anthropology portrays the various hybrids that result when *homo sovieticus* begets offspring with *homo oeconomicus*. These hybrids change in a glacial pace and defy the imposition of supposedly uniquely “rational” formal rules of how best to do business. The *Wirtschaftsethik* that prevails in the countries of “post-communist capitalism” and that we see practiced and advocated by investors, workers, entrepreneurs, administrators, consumers, and even economics professors is elucidated by the authors in much surprising detail, including the observation that there are even “capitalist virtues” that have been nurtured under Communism. A book that should not be missed, beyond region and EU specialists, by those interested in the new debates on “comparative capitalism.”

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